

# The American Economy in 1943<sup>1</sup>

**T**HE most notable feature among the economic developments of 1943 was the attainment of full industrial mobilization for total war.

After but two preparatory years—1941 devoted largely to plans and blueprints, and 1942, to the expansion and conversion of plant and equipment as well as to the corraling and training of an adequate labor force—the economy moved into high gear on the war production front in 1943. Nineteen million tons of new ships, eighty-six thousand aircraft, and equally impressive production feats in combat vehicles, ordnance, small arms, ammunition, and bombs provided evidence of this achievement.

The success of the war production effort was highlighted by the shifting of the initiative to the United Nations forces on all war fronts during the course of the year and by the confident announcement at the end of 1943 that the invasion of Europe from the west was in immediate prospect.

This success was made possible by an unparalleled level of total productive activity for the year as a whole, a substantial expansion of output being piled on top of the sharply rising trend of production during the three previous years. As a measure of the degree to which the productive resources of the Nation were being pressed into service, the gross national product in 1943 reached the record total of 185.8 billion dollars.

This compared with less than 152 bil-

lion dollars in 1942 and only 97 billion in 1940. The gain in output over the 1942 total was, therefore, not less than the expansion which occurred in the previous war years, despite the fact that it proceeded from a position of relatively full utilization of resources by peacetime standards.

Of course the rise in the value of the gross national product from 1940 to 1943 is partly accounted for by the rising trend of prices during this period. Nonetheless, the expansion of real output was quite impressive; it is estimated that more than half the gross product gain over this period represented an expansion in the real flow of goods and services. Although the restrictions that are implicit in a wartime economy affected adversely certain types of economic activity, the vast bulk of our industries operated at record-breaking levels in 1943.

Though economic activity as a whole showed as sizable a gain for 1943 as for 1942, there was a fundamental difference between the economic situations in the 2 years. This difference was the fact that whereas in 1942 there was a sharply rising trend in production within the year, there was in 1943 a decided leveling off in the basic indicators in productive activity as the economy as a whole rapidly approached the limits of its productive capacity.

For example, gross national product in 1942 increased at an annual rate of 10 billion dollars per quarter; in 1943 the increase was about 6 billion per quarter and the rise in each succeeding quarter was less than the preceding one.

As the level of operations began to press upon the capacity limits of the economy it was to be expected that shortages of the two basic economic resources, materials and manpower, would become aggravated. This proved to be the case throughout most of 1943, particularly with respect to manpower. The reason was that war production and essential civilian requirements had to be met in the face of a large increase of the Nation's armed forces.

Although there was some expansion in both the flow of materials and the civilian labor force in 1943, the basic difficulties of the year with respect to these resources were met primarily by improvement of administrative procedures, tightening of controls over the productive mechanism, better use of labor, and more efficient operation in fields and factories. In conjunction with these factors was more precise tailoring of plans for both production schedules and facilities expansion to the supply of our basic resources.

As the war production program approached its peak in the course of 1943, the pattern of the economy that lay behind the plans for an all-out war effort became abundantly clear. The main outlines of this pattern are contained in table 1 which shows the details of the gross national product.

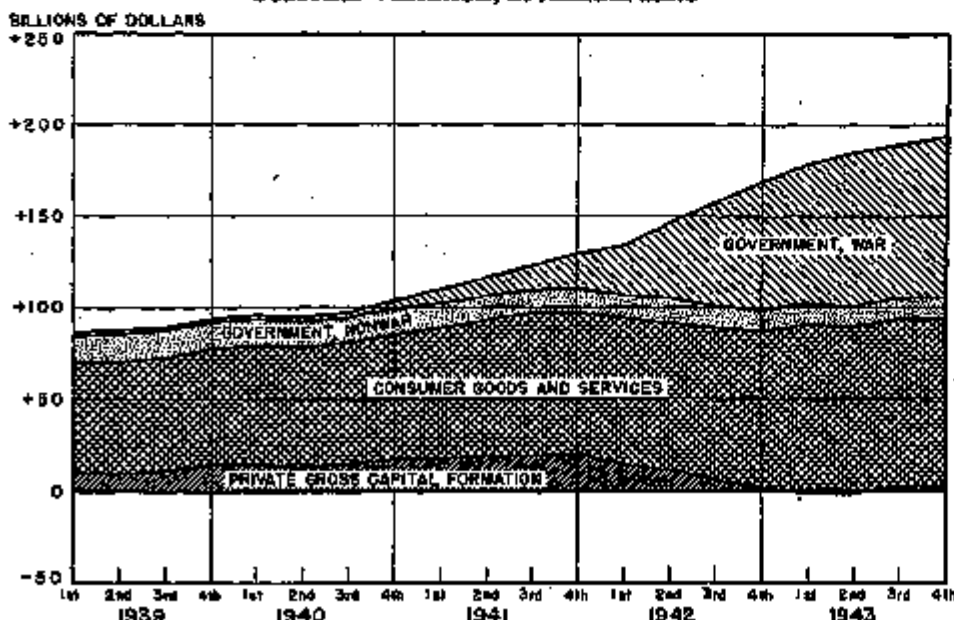
Fuller possible utilization of economic resources coupled with absolute priority for the requirements of war were the cardinal elements which shaped our wartime economic structure. The first produced the tremendous expansion in total economic activity already mentioned, the second produced the enormous flow of war material which did so much to turn the tide of battle. In 1943 this flow accounted for 45 percent of the value of gross national product.

The other changes in the economy were a direct consequence of these two dominant policies. In essence they amounted to allowing the civilian economy only what was most essential for its maintenance or what could not be practicably utilized in the war production program. As may be seen by table 1, this meant in practice that the civilian economy received its current requirements of nondurable goods and services to an extent which hardly seemed possible when the war production goals were announced 2 years earlier.

On the other hand, durable goods production for the civilian economy was very largely eliminated. This was the case with consumers' durable goods and to an even greater extent with plant and equipment for nonwar business enterprises. The pattern of these changes reflects the basic objectives of the extensive wartime controls over the productive process.

Also implicit in this pattern were the effects of the other large body of wartime controls, those relating to the pricing process. Although stress was placed upon avoiding the inequities, both dur-

Chart 1.—Gross National Expenditures by Use of Product, Adjusted for Seasonal Variation, at Annual Rate<sup>1</sup>



<sup>1</sup> When negative values are shown for "Private gross capital formation," "Gross national expenditures" consists of the positive values shown on the chart minus the negative values. Data for fourth quarter 1943 are estimated.

Source: U. S. Department of Commerce.

ing and after the war, that always accompany an inflationary spiral, a basic objective of these controls was to prevent the disruptive influence of inflation on the flow of production during the war itself.

Despite the fact that 1943 witnessed some intensification of the inflationary pressure caused by abundant income and shortages of supplies, the anti-inflation program proved very effective during the year in holding the line of prices and wages. While administrative controls were the primary implement in the anti-inflation program, it was materially aided by a substantial increase in the amount of income siphoned off by taxes.

Table 1.—Gross National Product or Expenditure  
(Billions of dollars)

Item	1939	1940	1941	1942	1943 <sup>1</sup>
Gross national product or expenditure	88.0	97.0	119.2	161.7	196.6
Government expenditure					
Federal Government	16.0	16.7	25.7	61.7	95.3
State and local government	7.9	8.8	17.3	64.3	88.6
War	1.4	2.7	12.5	49.3	83.7
Percent war to total national product	2	3	10	38	43
Other	6.5	6.1	5.9	5.0	4.8
Output available for private use	81.1	79.9	73.8	74.4	69.9
Private gross capital formation	72.0	70.4	63.5	69.9	61.4
Construction	10.9	14.7	19.0	20.0	1.0
Producers' durable equipment and other	3.6	4.3	5.4	2.9	1.6
Consumers' goods and services	7.4	10.4	13.5	3.0	-6
Durable goods	61.7	65.7	74.6	82.0	90.5
Nondurable goods and services	6.4	7.4	8.1	6.4	6.6
	55.3	55.3	65.5	75.4	82.9

<sup>1</sup> Estimates for the year are preliminary.  
Source: U. S. Department of Commerce.

Regarding the economic outlook for 1944, there was little prospect for drastic changes until the end of the European war. Consequently, the economic situation as of the end of 1943 was bound to give an approximate picture of the short-term outlook. This situation may be summarized as follows:

1. War production had about reached its peak. Many adjustments were still in prospect within the war production program but it seemed unlikely that any sizable expansion was still in prospect.

2. Both the gross national product and industrial production were rapidly leveling off and it was evident that the economy was close to capacity operations.

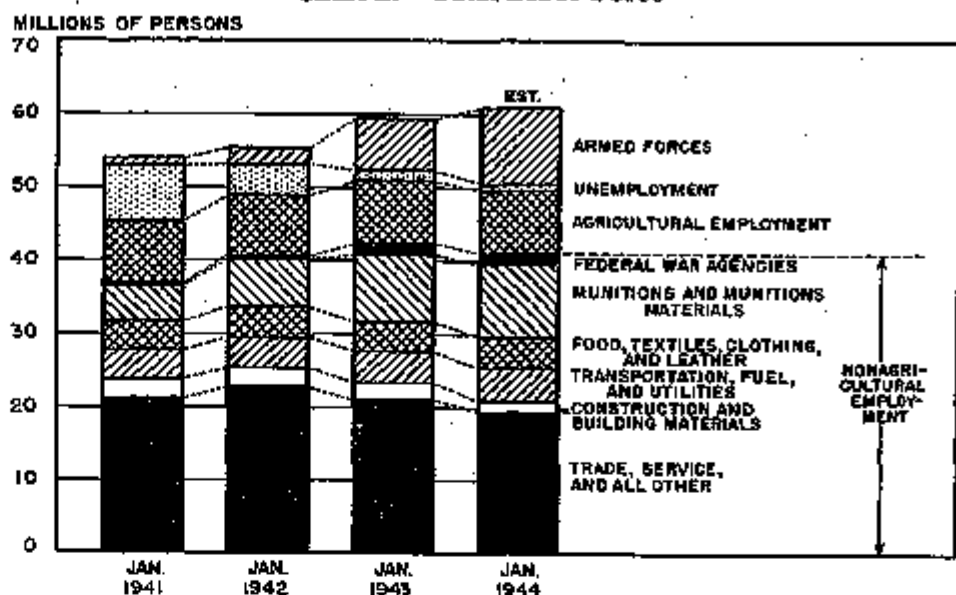
3. Production of civilian goods probably had reached its wartime low. Although a slight expansion of civilian goods output seemed likely for the months immediately ahead, there was little prospect of substantial expansion until the European war ended.

4. The raw materials situation was easing rapidly and allocations for the production of civilian goods were expected to increase moderately.

5. There were definite indications that the manpower problem as a whole would not get more serious, easing up in some areas but still extremely tight in others.

Thus most of the wartime economic problems had passed their critical stage by the end of 1943. The one big continuing problem was the threat of inflation.

Chart 2.—Total Labor Force<sup>1</sup>



<sup>1</sup> See footnotes, table 2.

Sources: War Manpower Commission, U. S. Department of Labor, and U. S. Department of Commerce.

However, it seemed possible that if the "hold the line" policy on prices and wage rates could be substantially maintained for 6 months or so, that even this problem would have successfully withstood its most critical period.

### Manpower

The tremendous output of goods and services produced during the war period was in the last analysis due to the effective mobilization and employment of the Nation's labor force.

At the time the defense program was initiated in the middle of 1940, there was a vast reservoir of unutilized manpower upon which the Nation could draw, both from the ranks of the unemployed and from that part of the population not usually in the labor force. As the defense program gained momentum the unemployed were rapidly absorbed into productive activity while at the same time the total labor force expanded not only by the normal increases but also by many women, youngsters, and older persons who normally would not be looking for jobs.

Thus during the 3 years from January 1941 to January 1944 the total labor force, including those unemployed but seeking work, increased by almost 7 million persons whereas normally the additions would have been less than 2 millions. Simultaneously, the number of unemployed was reduced from about 8 million to less than 1 million persons. In other words, total employment, including the armed forces, increased by almost 14 million persons in this period.

As industry and Government stepped up their manpower requirements, it was inevitable that a slowing down in the additions to the employed labor force would result. This situation developed very rapidly in 1943. Less could be drawn from the dwindling number of unemployed which was reduced by almost 3 millions during 1942 and a further 800,000 during 1943. The result was a total

unemployment of only 800,000 persons at the end of the year.

Furthermore, the number of new recruits during 1943 amounted to 1.5 mil-

Table 2.—Utilization of the Labor Force<sup>1</sup>  
(Millions of persons)

Item	Jan. 1941	Jan. 1942	Jan. 1943	Jan. 1944	Change Jan. 1941 to Jan. 1944
Total estimated labor force	54.0	55.3	60.4	60.9	+1.5
Armed forces <sup>2</sup>	1.0	2.1	7.0	10.4	+9.4
Civilian labor force	53.0	53.2	53.4	50.5	-1.9
Unemployed	7.7	4.3	1.4	.8	-6.9
Employed	45.3	48.9	52.0	49.7	+4.4
Agricultural employment	3.4	3.2	3.7	3.7	+0.3
Nonagricultural employment	38.9	40.7	42.9	41.0	+2.1
Munitions and munitions materials industries <sup>3</sup>	5.0	6.5	8.1	9.9	+4.9
Food processing	1.2	1.2	1.3	1.5	+0.3
Textiles, clothing and leather	2.7	2.0	2.8	2.7	+0.0
Federal War agencies <sup>4</sup>	.2	.5	1.4	1.5	+1.3
Transportation, fuel, and utilities	3.9	4.1	4.2	4.3	+0.4
Construction and building materials	2.6	2.6	2.3	1.4	-1.2
Trade and service <sup>5</sup>	10.5	10.9	10.6	10.5	0.0
All other <sup>6</sup>	10.8	11.9	10.2	10.2	-0.6

<sup>1</sup> All data apply to approximately the tenth day of the month, except for the Armed forces which relate to the first of the month.

<sup>2</sup> Estimated by the Bureau of Foreign and Domestic Commerce.

<sup>3</sup> Net strength; excludes net attrition due to battle casualties or other causes.

<sup>4</sup> Includes all metal-using industries, metal mining, coke-oven products, chemicals, selected chemicals, and rubber industries.

<sup>5</sup> Excludes navy yards and manufacturing arsenals included in the munitions group, as well as off-continent and free-account construction employment of war agencies.

<sup>6</sup> Includes trade and finance, service and miscellaneous groups as reported by the Bureau of Labor Statistics.

<sup>7</sup> Includes all other manufacturing, all other Government, and self-employed and domestic servants after adjustment for statistical differences in Bureau of the Census and Bureau of Labor Statistics series.

Sources: War Manpower Commission, U. S. Department of Labor, and U. S. Department of Commerce.

lions whereas the additions in 1942 exceeded 4 millions. Thus while the net additions to the employed labor force during 1942 amounted to 7 million persons the increase was only slightly greater than 2 millions during 1943.

The slowing down in the rate of increase in the employed labor force during 1943 had its repercussions on the civilian labor front. Since the armed services took an additional 3.4 million persons during the year and the net additions to the employed labor force amounted to only 2.1 million persons, civilian employment suffered a net decline of 1.3 million persons. Thus, at the end of 1943, the civilian labor force reached a wartime low of 50.6 million persons. It was this situation that led to the apprehension during most of the year that civilian labor shortages might become a serious threat to the war program.

However, toward the close of the year there were indications that the general manpower shortage was not getting worse primarily because of the leveling off in industrial activity. Furthermore, estimates of the War Manpower Commission indicate that if additional manpower were needed a fair sized reserve still existed in the half million youngsters coming of age each year, and in the 3.5 million urban housewives without children under 45 years of age. Additional possible sources of supply were the growing number of persons being released from the armed forces due to injury or illness and the further recruitment of workers from Mexico and nearby Caribbean areas.

Table 2 shows the pattern of manpower utilization in January of each year since 1941 and estimates for January 1944. These data clearly reflect the large transfer of workers from construction and nonindustrial employment into the munitions, fuel and transportation industries. Despite the increases in these latter industries total nonagricultural employment in January 1944 was 1.3 million persons below that of January 1943.

This situation affected some areas of the country much more than others. In fact, critical labor shortages in individual areas increased rapidly throughout the year until December when production cut-backs eased the immediate shortage

in several areas. The number of labor shortage areas is shown in table 3. Throughout the year the problem of getting new workers into the labor-deficient areas was complicated by the fact that the supply of housing and consumer services were frequently inadequate although some improvement had been made by the end of the year.

As might be expected from the increasing scarcity of labor in many producing areas, there was a substantial rise in the average number of hours worked per week. On the basis of available data, which are summarized in table 4, it appears that manufacturing workers averaged about 2 hours more work per week in 1943 than in 1942. As these data are obtained by dividing actual man-hours for which pay is received by the number of workers paid, they approximate actual average working time after losses from such causes as absences, separations, and strikes. Since losses of this kind were higher than in 1942, it is apparent that average operating time for plants was higher than the averages shown for workers.

Table 4.—Average Hours Worked Per Week in Manufacturing Industries

Industry and industry group	1940	1941	1942	1943 <sup>1</sup>
All manufacturing	38.1	40.6	42.9	45.0
Durable goods	38.3	42.1	45.1	46.8
Nondurable goods	37.0	38.9	40.3	42.7
Selected industry groups or industries:				
Machinery, except electrical	41.9	45.9	46.2	49.3
Machine tools	49.2	51.7	53.4	56.9
Transportation equipment, except automobiles	41.0	44.4	47.6	47.1
Aircraft and parts (excluding engines)	43.2	48.3	47.0	46.3
Shipbuilding and boatbuilding	39.8	44.4	48.0	47.4
Electrical machinery	40.4	43.7	48.2	47.0
Nonferrous metals and products	39.0	42.4	44.6	46.8
Automobiles	37.7	39.3	41.4	40.4
Iron and steel and their products	33.6	41.6	43.0	46.4
Chemicals and allied products	39.7	40.3	42.8	45.6
Paper and allied products	38.9	43.0	42.1	43.6
Rubber products	36.9	39.5	41.6	43.3
Products of petroleum and coal	37.0	37.8	39.6	44.5
Food and kindred products	39.0	40.4	41.5	44.2
Lumber and timber base products	39.6	39.4	40.6	43.2
Stone, clay, and glass products	37.4	39.0	40.2	42.6
Textile-mill products and other fiber manufactures	35.7	38.6	40.2	41.6
Leather and leather products	34.7	36.3	39.3	40.6
Apparel and other finished textile products	33.6	35.6	36.3	38.1

<sup>1</sup> The industrial groups are arranged in descending order of magnitude of hours worked per week in 1943.

Sources: U. S. Department of Labor, except 1943 data which were obtained by the U. S. Department of Commerce.

The number of strikes during 1943 was one-fourth greater than in 1942, while the number of workers involved, counting the coal miners only once, was over twice as large and man-days lost were more than three times as large. Coal miners accounted for about two-thirds of the strike idleness in 1943. However, the loss in working time was only a fraction of 1 percent of the Nation's total working time and was not large in relation to the loss in pre-war years. Apart from coal the loss of time through strikes had only a negligible effect upon production.

## Raw Materials

Perhaps the most difficult problem in the early months of 1943 was that of assuring an adequate volume of raw materials to meet the requirements of the war program and at the same time satisfy the essential needs of the civilian economy. Raw materials allocations and priority controls were strengthened, and as industry began to operate under the controlled materials plan of the War Production Board after the middle of the year, these controls in many respects took final shape. Further decentralization in operating the controls and a host of refinements in scheduling raw materials and finished product requirements, were the outstanding development in the latter half of the year.

The most important changes in materials allocations in 1943 reduced the flow of raw materials into construction and combat vehicles and channeled the materials thus saved into other munitions. Only a few civilian items like farm machinery, laundry equipment, refrigerators, and various repair parts, received larger allocations.

The year-end pattern of raw material production and use reflected substantial success in achieving a satisfactory balance between supplies of raw materials, manpower and manufacturing facilities. In fact in the closing months of the year indications pointed to the easing of the position in many industrial materials.

Table 5.—Raw Material Supplies  
(Indexes, 1935=100)

	1939	1940	1941	1942	1943 <sup>1</sup>
Industrial production:					
Lumber	106	115	129	130	117
Pulp	116	147	100	174	148
Cement	114	122	151	171	129
Industrial chemicals	120	163	210	286	260
Minerals, total	105	117	123	129	132
Fuel	145	114	122	126	133
Coal	100	118	123	139	140
Petroleum	108	110	120	115	129
Metals, excluding gold and silver <sup>2</sup>	112	145	108	100	137
Agricultural production:					
For sale and farm consumption, total	100	110	114	125	123
Crops	107	107	109	122	113
Livestock and livestock products	100	112	115	126	136

<sup>1</sup> Preliminary.  
<sup>2</sup> Includes mine production of copper, lead and zinc plus iron ore shipments for 1939 through 1942 and iron ore production for 1943.

Sources: Industrial production, Board of Governors of the Federal Reserve System; agricultural production, U. S. Department of Agriculture.

Although no single over-all indicator is at hand, available evidence suggests that total production of raw materials in 1943 was but little larger than in 1942. As shown in table 5, sharp declines occurred in the production of lumber, woodpulp and cement. There was a slight decline in the ore mining phases of metal production, but steel output was up nearly 4 percent and smelting and refining of nonferrous metals as a whole were well above 1942 levels. Production of industrial chemicals and crude petroleum made large gains, while coal output increased slightly. Supplies of nearly all imported materials were larger than in 1942, as might be expected from the great improvement in shipping conditions.

Table 3.—Labor Market Areas Classified According to Labor Supply

Year and month	Number of labor market areas classified	Areas of current acute labor shortage	
		Number	Percent of total
1943:			
Jan. 1	272	31	11.4
Feb. 1	269	32	11.9
March	271	36	13.3
Apr. 15	275	35	12.7
May 15	278	42	15.1
June 15	291	46	15.8
Aug. 1	325	55	16.9
Sept. 1	349	59	17.4
Oct. 1	340	71	20.9
Nov. 1	351	77	21.9
Dec. 1	358	69	20.3
1944:			
Jan. 1	343	67	19.7

Source: War Manpower Commission.

Production of agricultural commodities as a whole was up about 2.4 percent above 1942, reflecting a 9.5 percent rise for livestock and products, and a decline of 8.3 percent for crops. Total farm food production was 5 percent more than in 1942, as the result of a 10 percent rise in food produced from livestock and a 9 percent decline in total food crops.

The rising volume of livestock marketings during the year reflected the tightening feed situation. Because of the record livestock numbers, the concentrate feed supply per animal unit in the 1943-44 season will be 12 percent lower than last season. Depletion of the feed grain reserves accumulated during 1937 to 1939 was rapid throughout the year, as indicated by the 125 million bushels of corn and 400 million bushels of wheat which have been sold for livestock feed from Government holdings since the beginning of 1942.

Over-all developments in livestock and feed supplies during the year promised to reduce the supply of red meat and dairy products that will be available for civilians in 1944, but supplies of other major farm foods are expected to be about the same as in 1943 or slightly larger. This is assuming no repetition of the unfavorable crop weather which prevailed in 1943, and no greater increases in lend-lease and European rehabilitation requirements than are implicit in the 16 million additional acres of crops called for by the War Food Administration goal of 380 million acres in 1944.

It is interesting to note that 1943 was a period of rapid development in allocation and priority controls for agricultural products and for farm supplies like fertilizer, feed, and farm machinery, while development of these controls for other raw materials and industrial production equipment entered into more mature stages.

This observation serves as a reminder that the bulk of wartime control to be exercised over the production and marketing of agricultural raw materials must be exercised through price control devices of one sort or another. This is because the diverse character of agriculture and the large number of small producers, processors, and distributors involved make it impossible to administer a system of direct controls as employed for other raw materials. The assurance of adequate supplies of agricultural raw materials for the wartime economy, therefore, hinges partly on the further development of control devices suitable for the full mobilization of agricultural resources.

### Plant and Equipment

Since Pearl Harbor this Nation has witnessed an unparalleled expansion of industrial facilities. Impelled by Government demand for war production facilities, the industrial building program attained its maximum momentum in 1942. In that year the Federal Government spent about  $3\frac{1}{2}$  billion dollars for new industrial plant construction—an outlay which was as great as the expenditures from Government and private sources for this item during the 5 years preceding Pearl Harbor.

This prodigious effort went far toward fulfilling war needs and as a result there occurred a steady slackening of activity in the industrial construction field during 1943. Total outlays in the past 12 months were 40 percent below 1942, and in the last 3 months of 1943, Government outlays for industrial plant expansion were 75 percent below the expenditures in the last quarter of 1942. Indeed, by the end of 1943, as the necessary capital facilities for the war effort had been acquired, industrial directives stressed more efficient utilization of present plant capacity in contrast to continued expansion of plant facilities.

Additions to privately owned plant facilities were small and declining during the past 2 years. Private plant construction, which was only 8 percent of total plant construction in 1942, fell to slightly less than 5 percent in 1943, reflecting not only the inability of private capital to incur the risks involved in the war facilities program but also the severe curtailment of materials allocations to nonwar construction.

A complete picture of the extent to which new facilities supplemented the capacity obtained by converting existing plants requires discussion of the new industrial equipment added during this period. While available information is not as complete on this point as one would wish, the indications are that new machinery installations kept pace with plant expansion.

The value of Government financed industrial equipment delivered is estimated at about 3 billion dollars in 1942 and slightly less in 1943. The small decline in 1943 reflects a sharply falling trend in the past 12 months as is evident from the fact that the fourth quarter total for 1943 was more than 50 percent below the value of new machinery acquisitions in the similar 3-month period in 1942.

Available data on the new capital equipment situation as a whole (including both public and private outlays) reveal the same pattern of declining trends. In this connection it is noted that while the value of machine tool shipments declined on an annual basis from 1,320 million dollars in 1942 to 1,200 million last year, the shipments of 230 million dollars for the fourth quarter represented only 60 percent of the value of shipments in the corresponding quarter of 1942.

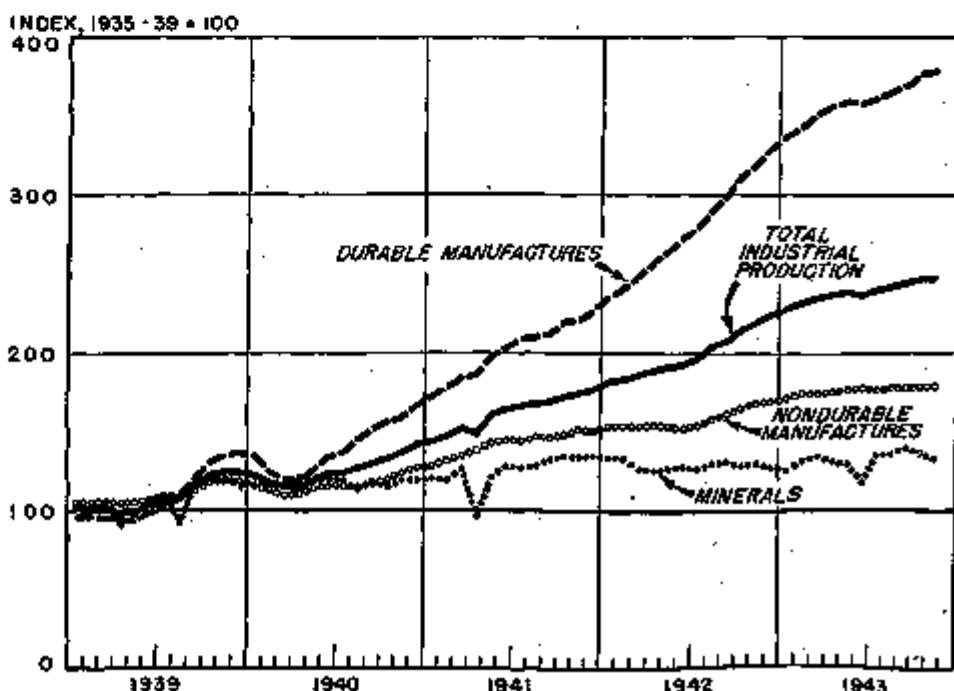
While the decline in industrial construction over the past year was perhaps the outstanding development in this field of activity, it must not be forgotten that the additions to the industrial facilities in 1943 were still of considerable magnitude. For example, public and private plant construction in 1943 was but 200 million dollars short of the total spent for that purpose in the 18 months preceding Pearl Harbor. Even if allowance is made for the higher construction costs in 1943, it is evident that the physical facilities of industry were substantially enlarged during the year.

### Industrial Production

The record-breaking rise in industrial production which began with the inauguration of the defense program in June 1940 continued in 1943. Since June 1940, output, as measured by the Federal Reserve index, 1935-39=100, rose from 123 to about 248 in December 1943. The average of 239 for the year 1943 represented a gain of 20 percent over the previous year and 48 percent over 1941.

The bulk of the gain in total production in 1943 occurred in the durable goods industries, which include the major war industries. This group registered an increase of 29 percent from 1942 in contrast to a rise of only 11 per-

Chart 3.—Industrial Production, Adjusted for Seasonal Variation



Source: Board of Governors of the Federal Reserve System.

cent in the nondurable goods group. It is significant, too, that the increase in the production of nondurable goods resulted largely from gains in the chemicals and rubber products industries, generally classified as war industries.

The sharp advance in manufacturing output for the year was accompanied by only a 2 percent rise in minerals output. With coal production showing only a slight rise, the gain of more than 9 percent in crude petroleum output was largely offset by the decline in the production of metallic minerals.

It should be noted that the gain in total industrial output was at a much slower rate than in the preceding 2 years, indicating that production was approaching a wartime peak. Since the fourth quarter of 1942, which registered an improvement of 16 points from the previous quarter, there has been a consistent decline in the rate of gain—12 points from the fourth quarter of 1942 to the first quarter of last year; 6 points from the first to the second quarter of 1943; 5 points from the second to the third quarter; and 4 points from the third to the fourth quarter.

As in 1942, the industries in the durable goods group showing the greatest gains were those which were heavily favored with war contracts. As chart 4 indicates the transportation equipment group, which largely reflects activity in aircraft, shipbuilding, and automobile plants, again headed the list with an overall increase of 58 percent, superimposed on a gain of 39 percent in 1942.

With greatly enlarged facilities, aircraft production reached the unprecedented level of approximately 86,000

planes of all types, compared with about 43,000 planes of much lighter weight produced in 1942. Volume of ship construction likewise showed a phenomenal gain, from 8,000,000 deadweight tons in 1942 to approximately 19,000,000 deadweight tons in 1943. The converted automobile industry, producing war materials almost exclusively, hit full stride during the year and accounted for a large proportion of the advance in the total transportation equipment index.

Substantial increases were also shown by the machinery and nonferrous metals groups but only modest advances were recorded in iron and steel and stone, clay and glass products. Production of steel ingots, which amounted to about 89,300,000 tons or 16 percent more than in 1942, was, nevertheless, somewhat less than earlier expectations due to delays in the scheduled completion of new plant facilities. Lumber production, acutely affected by manpower difficulties, declined 10 percent.

In the nondurable goods group sizable gains were shown by chemicals and rubber products which were heavily engaged in the production of war goods. Smaller increases were attained by the petroleum refining and food products industries. Moderate losses as compared with 1942 output occurred in textiles, paper products, and printing and publishing. In the textile group, cotton consumption declined while rayon consumption increased. The manpower problem appeared to be the principal bottleneck in cotton-mill activity.

As may be seen in table 7, it is estimated that about two-thirds of total

Table 6.—Indexes of Industrial Production

(1937-39=100)

Item	1939	1940	1941	1942	1943
Total index.....	100	125	162	190	230
Manufactures.....	100	126	168	212	258
Durable goods.....	100	128	201	279	350
Nondurable goods.....	100	115	142	158	176
Minerals.....	100	117	125	129	142
Durable manufactures:					
Pig iron.....	114	151	190	193	198
Open hearth and Bessemer steel.....	113	143	175	179	185
Electric steel.....	128	213	357	495	583
Machinery.....	104	136	221	340	442
Transportation equipment.....	100	145	245	464	735
Automobiles.....	94	118	152	156	220
Nonferrous metals and products.....	113	139	191	244	270
Lumber and products.....	100	116	134	134	123
Lumber.....	106	115	129	130	117
Furniture.....	107	118	145	143	148
Stone, clay, and glass products.....	114	124	162	165	173
Cement.....	114	122	154	171	178
Nondurable manufactures:					
Textiles and products.....	112	114	152	157	155
Cotton consumption.....	110	120	158	171	161
Rayon deliveries.....	128	138	150	173	182
Woolen and worsted cloth.....	112	105	152	173	174
Leather and products.....	105	98	123	122	114
Shoes.....	105	100	123	110	114
Manufactured food products.....	109	118	127	134	143
Manufactured dairy products.....	108	114	131	145	140
Meat packing.....	112	125	129	145	158
Other manufactured foods.....	106	112	128	134	143
Alcoholic beverages.....	98	101	117	118	118
Tobacco products.....	106	100	129	131	133
Paper and paper products.....	114	123	150	142	139
Paper.....	113	120	145	138	136
Printing and publishing.....	106	112	127	115	112
Newspaper consumption.....	89	103	107	103	100
Printing paper.....	112	121	147	137	134
Petroleum and coal products.....	110	120	136	147	183
Gasoline.....	112	112	126	110	111
Coke.....	105	105	142	164	187
Chemicals.....	112	130	178	278	387
Rubber products.....	113	123	163	172	227
Minerals:					
Bituminous coal.....	99	110	129	145	146
Anthracite.....	101	101	119	117	119
Crude petroleum.....	108	116	130	118	129
Metals, excluding gold and silver.....	112	145	168	190	197

\* Other than wheat flour and cane sugar millings in addition to the two food industries shown separately above.

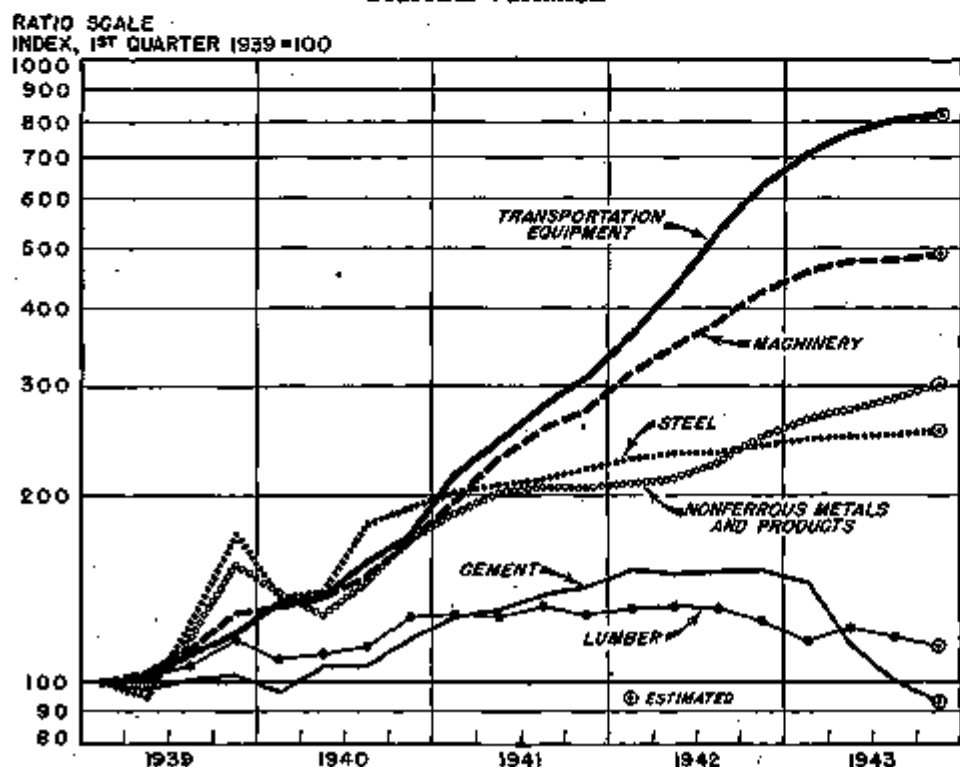
Source: Board of Governors of the Federal Reserve System, except data for 1943 which were estimated by the U. S. Department of Commerce.

Industrial production in 1943 represented war production. This constituted a substantial gain from the war portion of 55 percent estimated for 1942, and almost five times as great as the war portion of 1941. The civilian portion of the index, on the other hand, declined not only as a proportion of the total but in absolute terms, the 1943 volume being 9 percent below 1942 and 35 percent below 1941.

#### Manufacturers' Shipments

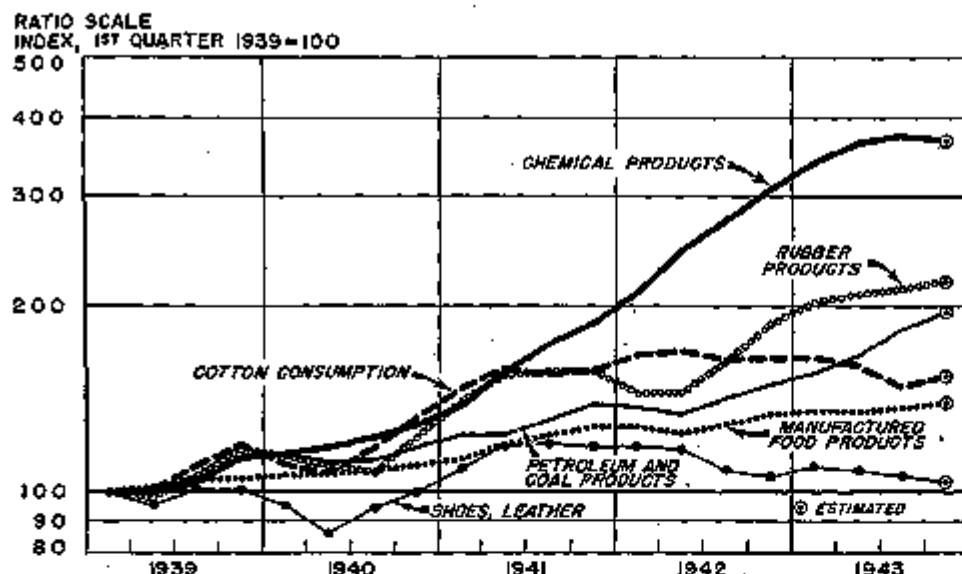
The record levels of industrial production in 1943 resulted in corresponding record sales of manufacturers. On the basis of reports of manufacturing firms to the Industry Survey of the Department of Commerce, the total value of manufacturers' shipments in 1943 amounted to 147 billion dollars, 21.3 percent above 1942. It may be noted that this is the same as the increase in manufacturing production (physical volume), exclusive of Government manufacturing. These results conform with the fact that

Chart 4.—Production of Selected Durable Manufactures, Adjusted for Seasonal Variation



Source: Board of Governors of the Federal Reserve System; index was recomputed with first quarter 1939 as 100 and fourth quarter of 1943 estimated by U. S. Department of Commerce.

Chart 5.—Production of Selected Nondurable Manufactures, Adjusted for Seasonal Variation



Sources: Board of Governors of the Federal Reserve System; index was recomputed with first quarter 1939 as 100 and fourth quarter of 1943 estimated by U. S. Department of Commerce.

average wholesale prices of all commodities other than farm products increased only by about 2 percent from 1942 to 1943.

It is apparent from chart 5 that, just as in the case of physical production, sales increases tapered off during 1943. Deliveries of manufacturers were at near maximum rates in the latter months of the year as additions to existing industrial capacity were drastically curtailed and full utilization of existing resources was approached.

Sales of durable goods industries no longer showed the expansion that was so characteristic of preceding years. Despite the rise of 21 billion dollars from 1942 to 1943, the trend in deliveries was leveling off in the latter year.

The electrical machinery and trans-

Table 7.—Estimated Portions of the Federal Reserve Industrial Production Index Represented by War and Civilian Production<sup>1</sup>

	1939	1940	1941	1942	1943 <sup>2</sup>
Industrial production:					
Total index.....	109	125	163	190	239
War portion.....	32	107	185	185	185
Civilian portion.....	77	18	78	5	54
Percent war.....	29	86	113	97	77
Manufactures:					
Total index.....	109	126	188	212	255
War portion.....	37	118	178	178	178
Civilian portion.....	72	18	10	34	77
Percent war.....	33	93	92	84	69
Durable manufactures:					
Total index.....	109	130	201	270	300
War portion.....	40	200	292	292	292
Civilian portion.....	69	30	9	78	108
Percent war.....	36	154	100	107	91
Nondurable manufactures:					
Total index.....	109	115	145	188	176
War portion.....	13	47	70	70	70
Civilian portion.....	96	68	75	118	106
Percent war.....	12	41	48	37	40
Minerals:					
Total index.....	106	117	125	120	132
War portion.....	35	89	85	85	85
Civilian portion.....	71	28	40	35	47
Percent war.....	33	76	68	71	64

<sup>1</sup> Estimates of the war portion are based on data obtained from numerous government sources and represent government purchases for direct military use, lend-lease and other exports.

<sup>2</sup> Preliminary.

Source: U. S. Department of Commerce.

portation equipment industries were the only two to show any marked expansion during the year. Shipments of the iron and steel industry have been fairly stable since the middle of 1942. Shipments of the machinery industry (other than electrical), in contrast to the sharp rise in 1942, slackened off during 1943, largely because of the curtailment of deliveries of the machine tool industry.

Nondurable goods industries did not increase shipments much above the 1942 level, although new records were made in 1943. The 1943 gain was only 5.1 billion dollars as compared with an increase of 8.8 billion from 1941 to 1942.

## Trade

As a result of an increasing share of manufacturers' output going for war purposes, a smaller proportion of manufactured goods has been passing through wholesale and retail channels. This is clearly seen in chart 6 which shows that while sales of manufacturers continued to increase at substantial rates after June 1942, wholesale and retail sales were far from buoyant.

Nevertheless, the dollar volume of sales of wholesalers and retailers were at record levels in 1943. In the face of the reduction in production of civilian goods mentioned previously, this was due to (1) somewhat higher prices in 1943 from 1942, (2) the drawing down of inventories, and (3) shifting from the production of low-priced items to the more expensive lines.

Table 8.—Manufacturers' Shipments<sup>1</sup>  
(Billions of dollars)

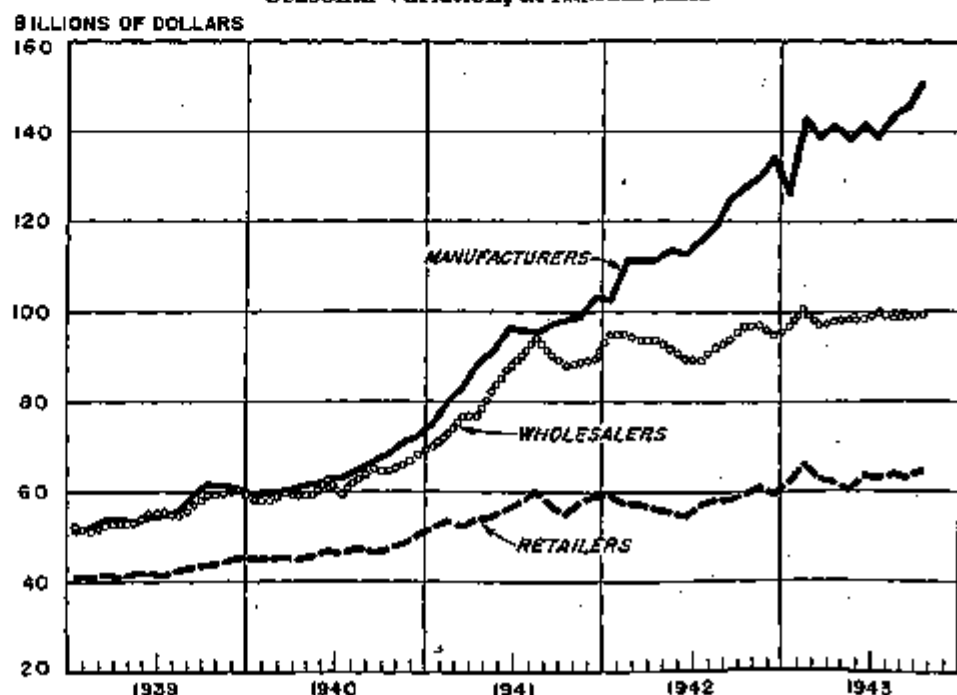
	1939	1940	1941	1942	1943 <sup>2</sup>
Total, all industries.....	65.9	68.0	94.1	121.3	147.2
Durable goods industries:					
Iron and steel and their products.....	24.9	31.7	49.0	65.3	67.4
Nonferrous metals and their products.....	6.6	6.3	12.9	14.3	15.1
Machinery.....	2.6	3.2	4.6	6.8	6.9
Transportation equipment (incl. automobiles).....	3.0	6.5	10.2	14.0	19.8
All other durable goods.....	4.8	6.8	11.1	18.9	31.2
Nondurable goods industries:					
Food and kindred products.....	5.8	6.0	10.2	12.5	14.4
Textile-mill products.....	32.0	34.3	45.1	54.0	59.8
Textile-mill products.....	10.6	11.2	14.3	18.5	20.0
Chemicals and allied products.....	2.0	4.2	6.4	7.8	7.0
All other nondurable goods.....	2.8	4.3	5.8	6.7	8.0
All other nondurable goods.....	12.7	14.0	18.0	21.9	23.9

<sup>1</sup> Data represent the aggregate dollar shipments and are not adjusted for the number of working days.

<sup>2</sup> Preliminary.

Source: U. S. Department of Commerce.

Chart 6.—Sales of Manufacturers, Wholesalers, and Retailers, Adjusted for Seasonal Variation, at Annual Rate



Source: U. S. Department of Commerce.

## Sales of Wholesalers.

Primarily as a result of the rise in prices, sales of wholesalers rose by 6 percent in 1943 to a total of 99 billion dollars. This increase was due entirely to the 15 percent increase in the nondurable segment which more than offset the decrease in durable goods sales. Chart 7 illustrates the wide divergence between the sales of these types of establishments.

Wholesalers dealing primarily in non-durable commodities recorded sales of over 78 billion dollars, all types of establishments showing gains from 1942 with the single exception of petroleum products dealers. Among wholesalers handling final consumption goods, the increases ranged from 11 to 20 percent with alcoholic beverages recording the largest and clothing and furnishings the smallest gains.

Food, tobacco products, and drugs and sundries were all up about 14 percent from 1942. Wholesalers' sales of non-durable commodities used primarily in production recorded advances of 32 percent in the farm products-raw materials group, and slightly under 10 percent in the coal and paper products group. Sales of dealers in petroleum products were slightly below the 1942 level.

Sales of durable goods wholesalers shrunk to 21 billion dollars, a decline of 15 percent from the previous year. The most striking decreases were evidenced in the electrical goods line (22 percent) and machinery and metals (20 percent). The rapidly falling volume of construction activity was reflected in the 12 percent slump in lumber and construction materials sales and the 3 percent decline in hardware volume.

Furniture and housefurnishings were off almost 12 percent from the preceding year with a rapidly declining trend while automotive dealers' sales were down 5 percent from the almost irredurable level of 1942. The only exception to the downward trend among the durables was the

Table 9.—Sales of Wholesalers by Kinds of Business  
(Millions of dollars)

Kind of business	1939	1940	1941	1942	1943
Total, all wholesalers.....	86,263	94,756	93,001	93,221	99,256
Durable goods establishments.....	15,104	18,324	27,600	25,654	21,172
Machinery and metals.....	8,123	7,477	12,676	12,042	9,897
Automotive.....	2,908	3,727	4,600	4,973	4,871
Lumber and building materials.....	2,545	3,042	4,367	4,701	4,228
Electrical goods.....	1,780	2,188	3,460	3,310	2,673
Hardware.....	644	790	1,125	1,212	1,171
Housefurnishings.....	674	717	1,079	1,169	1,080
Jewelry and optical goods.....	383	415	555	601	630
Nondurable goods establishments.....	49,164	43,431	55,391	65,177	78,084
Food.....	13,145	13,881	16,070	20,863	23,437
Farm products, raw materials.....	6,295	7,018	6,637	13,900	17,535
Petroleum and its products.....	4,138	4,324	5,380	5,253	5,238
Dry goods.....	3,292	3,407	4,024	4,407	7,390
Tobacco and its products.....	1,849	1,983	2,206	2,484	2,838
Clothing and furnishings.....	1,622	1,710	2,221	2,574	2,807
Beers, wines, and liquors.....	1,084	1,617	2,240	2,011	3,511
Coal and coke.....	940	1,261	1,601	2,110	2,270
Paper and products.....	1,039	1,134	1,848	1,606	1,707
Drugs and sundries.....	808	897	1,082	1,313	1,489
All other.....	5,325	5,021	5,220	5,535	9,802

† Preliminary data based on the first ten months.

Source: U. S. Department of Commerce.

13 percent increase in the trading of jewelry and optical goods establishments.

Although total wholesale sales were up somewhat from 1942 to 1943, an examination of the trends during the year shows a considerable leveling off in the rate of gain. With wholesalers' inventories at a low level, future sales must come largely from new productive output. While there is some evidence of partial relaxation of some of the limitations on consumer goods output and easing up on some of the raw materials on the critical and strategic list, in the main nonwar production is not apt to expand significantly so long as the European war continues.

## Sales of Retailers.

Despite shortages of many civilian goods, sales of retail outlets in 1943 attained a record total of 82.9 billion dollars, exceeding 1942 sales by about 9 percent. The effect of the restricted supply of many goods was evident at

stores handling primarily durable goods where sales dropped 10 percent from 1942. Sales of nondurable goods stores increased substantially from 47.7 billion dollars in 1942 to 53.8 billion dollars in 1943.

A substantial portion of the increase in dollar sales was the result of price rises. Nevertheless, after allowing as far as possible for price changes, it appears that the 1943 total sales in constant dollars were slightly greater than the 1942 volume but about 7 percent below 1941, the peak year in terms of physical quantity.

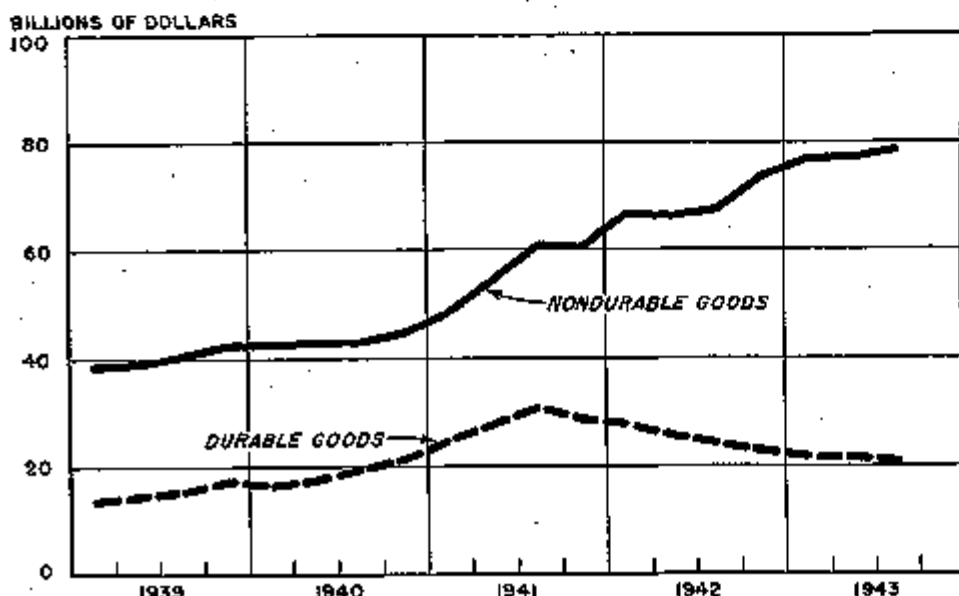
Production restrictions and material shortages were the main factors which caused a decline of 42 percent in the sales of durable goods stores since the peak year of 1941. Priorities for new cars and trucks and rationing of tires and gasoline, introduced in 1942 and intensified in 1943, accounted for the sharp decrease in the sales of automotive stores.

This decline occurred in spite of an advance for auto parts and accessory stores, which added such new lines of merchandise as apparel to offset the curtailment in their regular lines. Cessation of production, plus dwindling retail inventories of radios, appliances, certain types of furniture, some hardware and farm implement lines, and many building materials, were factors in the continued drop in sales of durable goods stores in 1943.

Jewelry stores, however, did not follow the downward trend of the other durables. Sales rose sharply and reached an all-time high level of about 1 billion dollars. This represented an increase of over one-fourth from 1942 to 1943. Price increases, large sales of precious stones, the drawing down of inventories, and ingenuity in the use of substitute materials and commodities in the face of ever-increasing consumer demand were responsible for the striking uptrend in jewelry store sales.

Inasmuch as they were much less affected by shortages of materials, sales of nondurable goods stores advanced 13 percent from 1942 to 1943. All major groups of nondurable goods stores participated in the rise except filling sta-

Chart 7.—Wholesalers' Sales of Durable and Nondurable Goods, Adjusted for Seasonal Variation, at Annual Rate



Source: U. S. Department of Commerce.

tions, where shortage of supplies resulted in a 17 percent decline in sales.

Table 10.—Sales of Retail Stores by Kind of Business  
(Billions of dollars)

Kind of business	1939	1940	1941	1942	1943 <sup>1</sup>
All retail stores.....	42.0	40.4	55.5	57.8	82.0
Durable goods stores.....	13.4	12.4	15.5	16.1	9.1
Automotive.....	8.5	8.0	8.5	2.8	2.5
Building materials and hardware.....	2.7	2.1	3.9	3.3	2.2
Home furnishings.....	1.7	2.0	2.5	2.7	2.4
Jewelry.....	.4	.4	.8	.8	1.0
Nondurable goods stores.....	31.7	34.0	40.0	47.7	53.8
Apparel.....	2.3	2.4	4.2	5.2	6.3
Drug.....	1.6	1.0	1.9	2.3	2.7
Eating and drinking.....	3.5	3.9	4.8	6.2	6.0
Food.....	10.2	10.9	12.6	15.9	17.0
Filling stations.....	2.6	3.0	3.5	2.0	2.5
General merchandise.....	6.6	6.5	7.0	9.0	9.9
Other retail.....	3.9	4.3	5.2	6.2	7.4
All retail stores in 1935-39 dollars.....	42.5	40.2	51.1	47.1	47.5

<sup>1</sup> Preliminary data based on the first 10 months.  
Source: U. S. Department of Commerce.

Eating and drinking places and apparel stores were the two nondurable groups showing the largest gains, 29 and 21 percent respectively. While these advances were possible only because of relatively easy supply situations, they do reflect somewhat less effective control of prices. A marked trend toward trading-up (i. e., substitution of higher for lower priced lines) was evident in both these fields and, furthermore, price control for eating and drinking places was not inaugurated until April 1943.

In the other nondurable goods groups increases were less marked, though nonetheless substantial. The gain in sales of food stores from 1942 to 1943 was limited to 8 percent, partly as a result of price ceilings and partly because of relative shortages of some foods. Increases in the drug, general merchandise, and the other retail groups reflected prompt replacement with substitutes of some products no longer available and greater concentration on higher-priced items.

It is interesting to note that retail sales of nondurable goods have just about kept pace with the increase in consumer income, after personal tax payments, from 1941 to 1943 despite the fact that durable goods sales fell well below the pre-war relationship. While this is indicative of changes in the basic supply situation, it is also evidence of the effectiveness of price control since, in the absence of control, a substantial spillover of buying power from the durable to the nondurable areas would undoubtedly have taken place.

#### Business Inventories

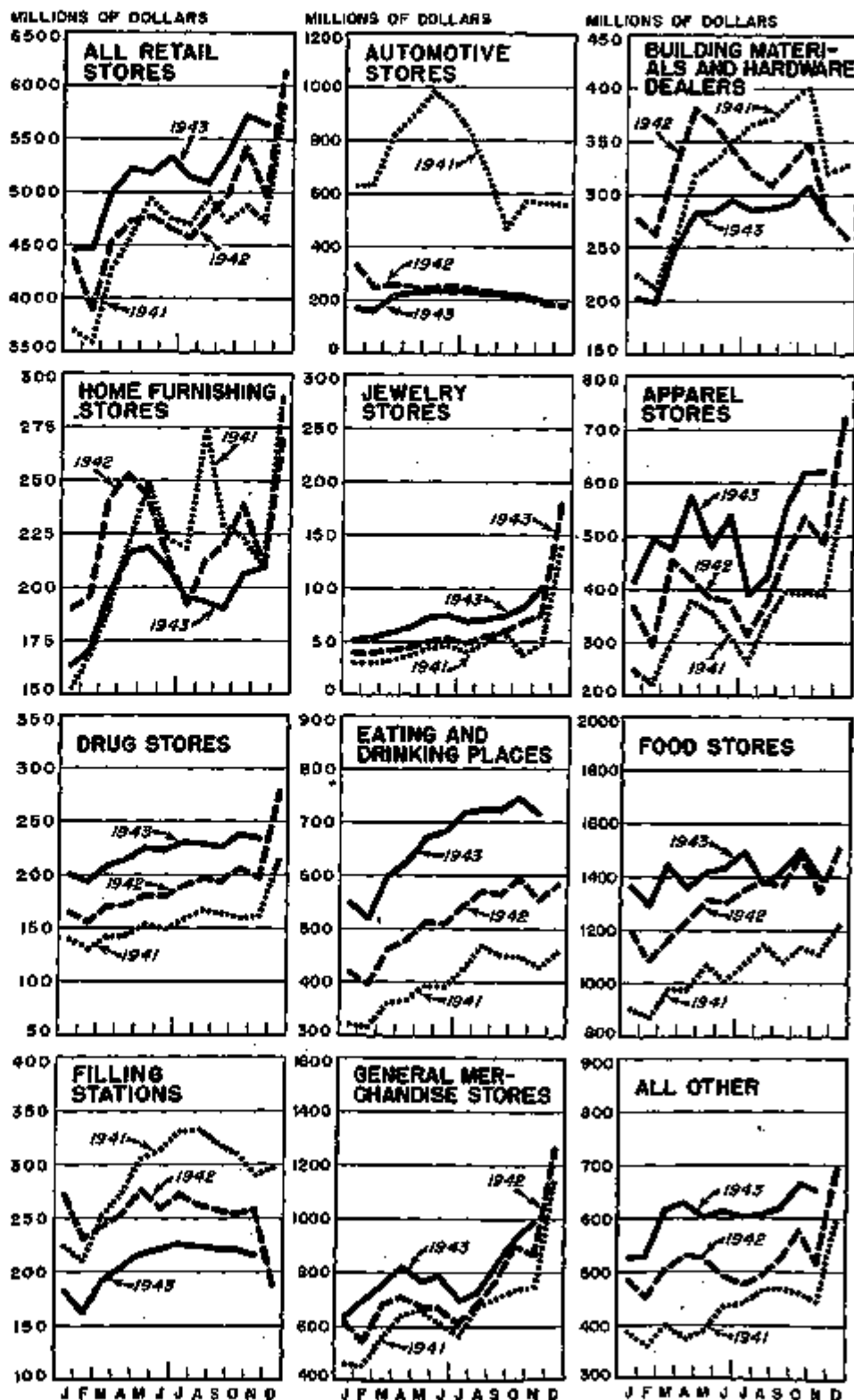
Changes in business inventories in 1943 clearly reflect the character of the developing economic situation. On the one hand, the near attainment of maximum war production and full utilization of industrial capacity meant a sharp curtailment in the rate of accumulation of manufacturers' inventories. On the other hand, the restricted supply situation in consumers' goods relative to available income was reflected in an actual drawing down of both wholesalers' and retailers' stocks.

On the whole, total business inven-

tories declined during 1943, in sharp contrast to the rapid accumulation during 1941 and 1942, with the 1943 average value about 4 percent below that of 1942. The downward trend began in June 1942 and continued for 12 months, resulting in a total liquidation of 2.3 billion dollars. In each month since June 1943, however, the value of stocks

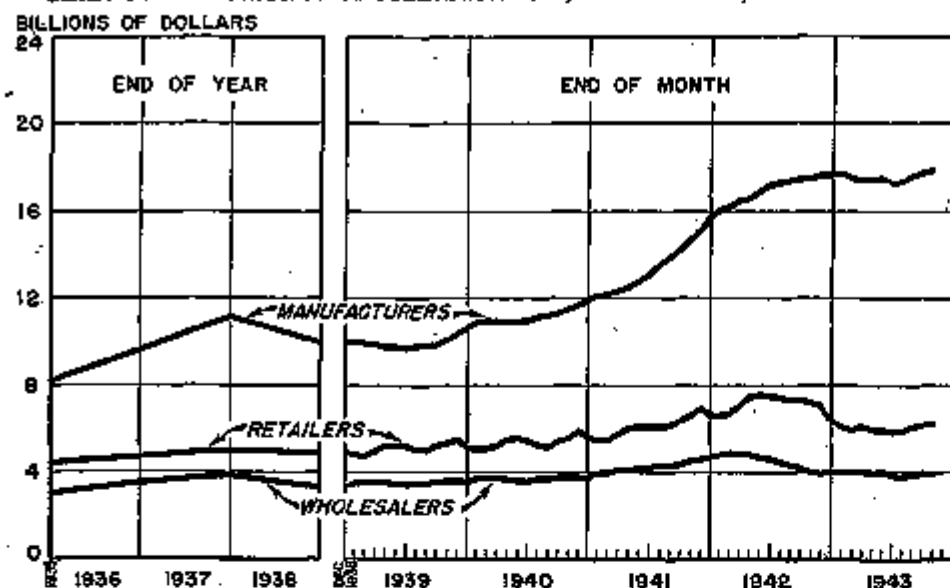
increased successively, recording a total accumulation of 1 billion dollars in the 4 months ending in October. Nevertheless, total inventories stood at 28 billion dollars at the end of October 1943, 3 percent under a year earlier. Taking into account the fact that prices in general were higher than in 1942, stocks held by business firms at the end of

Chart 8.—Sales of Retail Stores



Source: U. S. Department of Commerce.

Chart 9.—Inventories of Manufacturers, Wholesalers, and Retailers



Source: U. S. Department of Commerce.

Table 11.—Value of Business Inventories (Millions of dollars)

End of period	Manufacturers	Wholesalers	Retailers	Total
1938.....	9,994	2,210	4,882	18,106
1939.....	10,656	2,549	6,117	19,322
1940.....	11,920	3,730	5,549	21,199
1941.....	15,747	4,697	6,637	27,081
1942:				
January.....	16,096	4,835	6,820	27,751
February.....	16,201	4,867	6,700	27,768
March.....	16,404	4,899	7,087	28,390
April.....	16,008	4,812	7,472	28,292
May.....	16,038	4,674	7,565	28,277
June.....	17,183	4,632	7,496	29,311
July.....	17,317	4,475	7,430	29,222
August.....	17,392	4,345	7,367	29,064
September.....	17,439	4,245	7,360	29,044
October.....	17,447	4,020	7,276	28,743
November.....	17,623	3,956	7,090	28,669
December.....	17,653	3,992	6,384	28,029
1943:				
January.....	17,670	3,001	6,110	26,781
February.....	17,440	3,026	5,940	26,406
March.....	17,386	3,061	6,100	26,547
April.....	17,428	3,004	5,935	26,367
May.....	17,460	3,002	5,947	26,409
June.....	17,415	3,882	5,829	27,126
July.....	17,391	3,823	5,904	27,118
August.....	17,577	3,877	6,125	27,579
September.....	17,719	3,893	6,196	27,808
October.....	17,703	3,969	6,220	27,892

Source: U. S. Department of Commerce.

1943 were well below the levels prevailing at the time of our entry into the war.

As shown in chart 9 inventories of manufacturers maintained a somewhat higher position in 1943 than in 1942, although there was an irregular downward movement in the first 6 months which resulted in a drop of 300 million dollars. Successive increases in each month since June, raised total stocks at the end of October to 17.8 billion dollars, an all-time peak. This increase, especially apparent in nondurable goods, accounted for about one-half the rise in the total of all business inventories since the middle of the year and reflected a movement to cover expected heavier demands from wholesale and retail merchants whose stocks had been greatly depleted.

Although stocks of durable goods manufacturers were higher in 1943 than in

1942, there was a distinct leveling off in these inventories in the course of last year. The primary reason for this trend was, of course, the rapid approach of capacity operations. But increased caution with respect to inventory policy, particularly by firms in war production, was also a significant influence.

The gap between the inventory accumulations of the "war" and "nonwar" industries widened in 1943. As chart 10 indicates finished goods of both groups remained at about the same level as in 1942, but the differences were quite marked in raw materials and goods in process. In the "war" industries, consisting of the iron and steel, nonferrous metals and their products, machinery,

transportation equipment, chemicals and rubber industries, raw materials and goods in process inventories continued to rise although at a slower rate than in 1942. Materials inventories of the "non-war" industries, on the other hand, continued the decline that began in the middle of 1942.

Table 12.—Manufacturers' Inventories—War and Nonwar Industries (Millions of dollars)

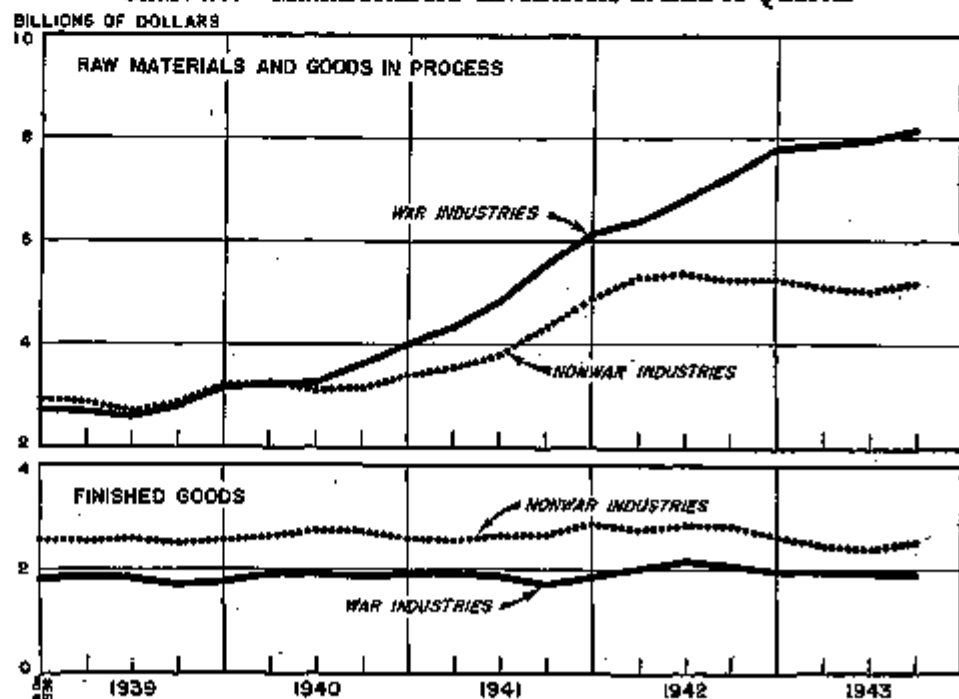
End of period	War industries		Nonwar industries	
	Raw materials and goods in process	Finished goods	Raw materials and goods in process	Finished goods
1938.....	2,727	1,798	2,917	2,533
1939.....	3,194	1,725	3,200	2,530
1940.....	4,016	1,918	3,385	2,602
1941.....	6,157	1,844	4,879	2,367
1942:				
First quarter.....	6,402	2,011	5,208	2,763
Second quarter.....	6,810	2,156	5,305	2,802
Third quarter.....	7,251	2,068	5,237	2,839
Fourth quarter.....	7,898	1,970	5,262	2,627
1943:				
First quarter.....	7,347	1,964	5,114	2,461
Second quarter.....	7,958	1,943	5,019	2,395
Third quarter.....	8,130	1,857	5,190	2,322

Source: U. S. Department of Commerce.

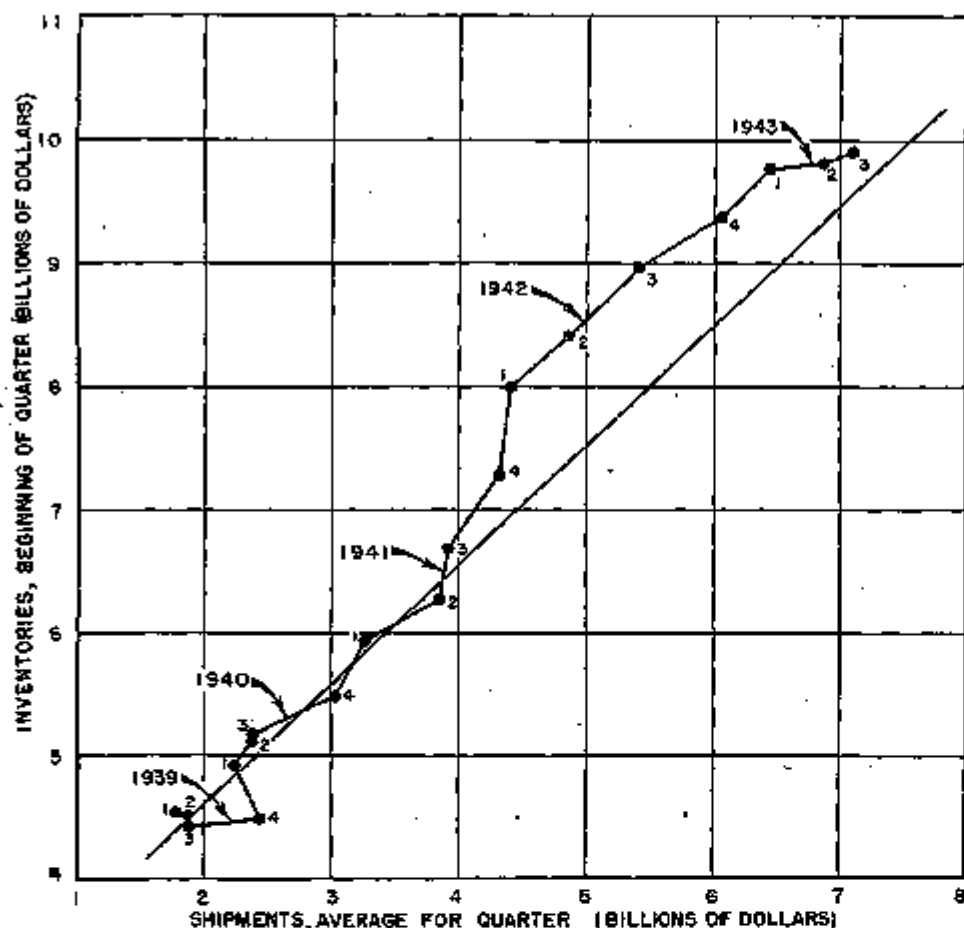
As chart 11 suggests, the slower rate of inventory accumulation was probably drawing the inventory level closer to production requirements. This contrasts sharply with the situation in 1942 when inventories were far in excess of shipments, due not only to the requirements of expanding output but to anticipation of growing shortages.

Inventories of wholesalers, under the impact of increased orders from both retailers and producers, began to decline as early as March 1942 and continued down-

Chart 10.—Manufacturers' Inventories at End of Quarter



Source: U. S. Department of Commerce.

Chart 11.—Relationship Between Manufacturers' Inventories and Shipments, for "War" Industries<sup>1</sup>

<sup>1</sup> Data include iron and steel and their products, machinery, nonferrous metals and their products, transportation equipment, chemicals, and rubber. Regression line was fitted to data from 1939 through the third quarter of 1941.

Source: U. S. Department of Commerce.

ward for the rest of the year. Although a slight increase took place after the middle of 1943, the volume of wholesalers' stocks throughout last year remained at exceptionally low levels.

Inventories of durable goods establishments decreased appreciably, especially in lines where civilian production had been restricted, as in household appliances. Such increases as were recorded came from inventories of foods and drugs which registered a large increase in the last few months of the year.

At the end of 1943 the value of wholesale inventories was below that of 1941, while in terms of physical volume stocks were below the level of 1939. This indicates that inventories cannot be reduced significantly in relation to current sales if wholesalers are to perform their customary functions.

Retail inventories began to decline in June 1942 and the downward trend continued through June 1943. Despite an increase of some 400 million dollars since the middle of the year, inventories in the closing months of the year were approximately 1 billion dollars below those of the same months of 1942. Contributing factors to the decline were the record volume of sales and the restricted production on goods for civilian use.

Apparel inventories declined during

the first half of 1943 as a result of a buying scare induced by shoe rationing, but since midyear apparel accounted for most of the increase in total retail inventories. One of the chief reasons for the increase since June was the large accumulation in August and September in anticipation of early Christmas buying.

The general pattern of movement in the durable and nondurable goods was the same as in the wholesale inventories; durable goods continued to decline while nondurable goods stocks provided the increase.

### Electric Power

The ability of electric power supply to keep pace with the economy's rapidly expanding needs has been an outstanding feature among war production achievements. It is noteworthy that this industry was perhaps the only one confronted with tremendous war demands which was able to continue giving adequate civilian service. Facilities adequate at the start were kept so on the whole by careful expansion and correlated action to improve their utilization. Chief actions of this kind were the well-known ones relating to the location of new plants, inter-connections between systems, maintenance of adequate fuel stocks, and improved load factors. The situation

Table 13.—Supply and Utilization of Electric Energy<sup>1</sup>  
(Billions of kilowatt-hours)

	1939	1940	1941	1942	1943 <sup>2</sup>
Total utilization.....	166.0	185.3	212.4	238.9	274.0
Industrial.....	84.9	96.0	120.4	125.9	158.9
Commercial.....	20.7	22.4	24.6	27.2	29.0
Domestic.....	29.0	25.3	27.6	29.8	32.0
Traction.....	3.8	4.9	6.1	6.6	7.4
Government.....	4.5	4.8	5.2	6.3	11.0
Other.....	27.1	28.0	29.7	32.0	37.7
Total supply.....	166.0	185.3	212.4	238.9	274.0
Production.....	163.2	182.3	211.3	236.5	271.3
Imports.....	2.8	3.0	1.1	2.4	2.7

<sup>1</sup> Based on data compiled by Federal Power Commission and Edison Electric Institute.

<sup>2</sup> Estimated by U. S. Department of Commerce.

<sup>3</sup> Includes energy produced and consumed by electric railways, municipal street lighting companies, utilities, other producers, and losses and unaccounted for.

was aided considerably by multiple-shift operations of many war plants.

Net additions to electric power generating capacity in 1943 were close to 3 million kilowatts, compared to 2.5 million kilowatts in 1942. Over-all electric energy consumption was up 15 percent and reached 274 billion kilowatt-hours. The largest increases in consumption were by manufacturers of chemicals and transportation equipment who used about one-third more power than in 1942.

Manufacturers of machinery, nonferrous metals and rubber products increased their consumption about one-fifth. Consumption by railways and all manufacturers was up about 12 percent, while the steel industry and domestic and commercial users consumed about 7 percent more than in 1942. Small declines were registered by a few industries, such as leather, lumber, paper, and ceramic products.

An interesting development during the war period was the ever-increasing divergence between electric power production and industrial output. Chart 12 illustrates the fact that power output which usually follows industrial production very closely failed to keep up during the last three years. This was due to the fact that the major increases in industrial production were in industries engaged in processing which are on the whole low consumers of power. Producers of raw materials, such as pulp, stone, clay, and glass, and the mineral-extractive industries, normally high consumers of power, showed little gain in output throughout 1943.

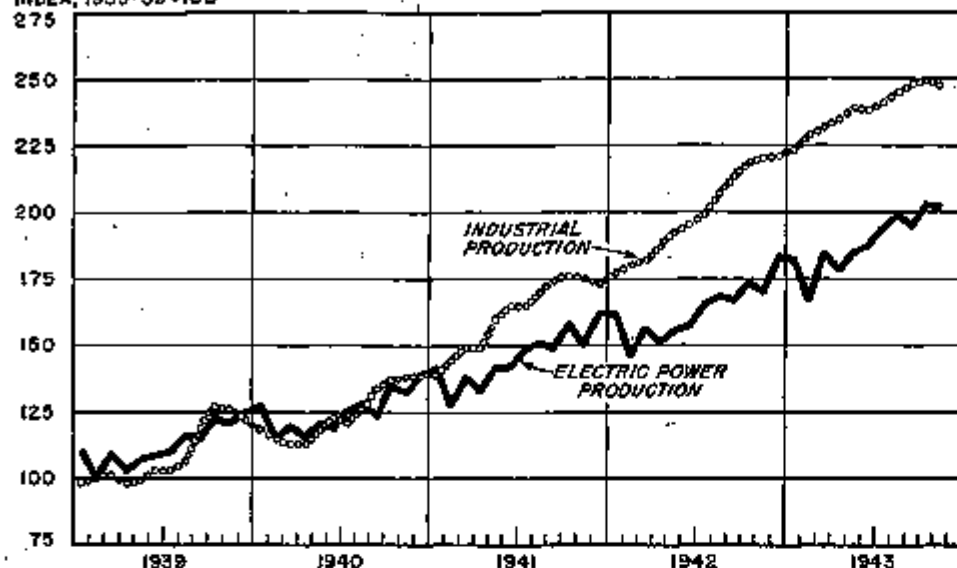
### New Construction

In 1943 the nation put the finishing touches on the most ambitious program of new construction ever undertaken in building a war machine. Most of the groundwork was completed in 1942 when construction projects valued at 13.5 billion dollars and equal to 9 percent of the national product were added to the economic potential of the country. Indeed, so rapidly was this program carried out, that by the end of the third quarter of 1942 men and materials were being shifted from this preparatory form of war production to the more direct forging of the implements of war.

This shifting of resources continued at a rapid pace during the last twelve months with the result that total new

Chart 12.—Electric Power and Industrial Production, Without Adjustment for Seasonal Variation

INDEX, 1935-39=100



Sources: Index of electric power production computed from data of the Federal Power Commission; index of industrial production, Board of Governors of the Federal Reserve System.

construction was 43 percent below the level of the previous year. The 7.7 billion dollars thus spent represented but a 4 percent share of the national product, the lowest percentage for this sector of the economy since the outbreak of the war in Europe. Rather than being a cause for concern, however, this situation is clear evidence of the rapid progress achieved in mobilizing the economy.

Publicly financed construction—primarily of a war nature—declined sharply from 10.7 billion dollars in 1942 to 6.1 billion dollars last year. Just as military and naval building featured the rapid expansion, so also did it lead the decline. The drop from 5.2 billion dollars in 1942 to 2.7 billion dollars in 1943 was the largest of the major components, and indicated the practical completion of the vast building program required to house a ten-million-man army, boat a 2-ocean navy and put into the air the largest air force in history.

The abrupt curtailment of public construction was more than matched, on a percent basis, by the drastic fall in privately financed building. The full significance of this fact is best appreciated by considering the recent record of this class of construction.

In 1941, 5.3 billion dollars of construction, 47 percent of the total, was on private account. In 1942, when construction activity was at its all-time peak, privately financed projects were cut almost to half the 1941 volume. Yet in 1943, the level of private construction was still further reduced to a point where it represented but 30 percent of the 1941 high, and by the end of the year was at the lowest figure in the last decade.

There was some variance in the degree to which the various types of construction shared in the general decline. While military, naval and industrial construction declined at a more rapid rate than the total, such classes as highway and public utility construction fell to a

lesser extent. One of the most well-sustained types of activity was residential construction, both public and private, in which the decline was only about a quarter from the 1942 level.

The less drastic slackening of residential construction was a result of the continued upward trend of public housing, which partially offset the falling off of privately financed work. In the years immediately prior to the entry of the United States into the world conflict, private residential construction grew rapidly.

In 1939 and 1940, this sector constituted a growing proportion of total con-

struction, and even 1941, when expanding Government war preparations resulted in larger and larger claims on construction manpower and materials, new privately financed residential building continued to expand.

With Pearl Harbor, this trend was brought to a halt; from the third quarter high of almost 1 billion dollars in 1941, the value of new residences financed by private means declined 65 percent to 325 million a year later. The restrictions which were primarily responsible for this decline continued in effect this past year, and as a result activity in 1943 was lower than the level

Table 14.—New Construction Activity<sup>1</sup>  
(Billions of dollars)

Item	1939	1940	1941	1942	1943
Total.....	0,045	3,680	11,145	12,349	7,748
Private, total.....	3,530	4,232	5,291	2,877	1,420
Residential building (nonfarm) <sup>2</sup> .....	2,046	2,339	2,881	1,400	806
Nonresidential building, except farm and pub. utility.....	732	982	1,306	527	170
Industrial.....	227	423	678	315	102
All other.....	505	550	628	212	74
Farm construction.....	230	240	300	195	147
Residential.....	130	146	176	114	84
Nonresidential.....	94	101	124	81	53
Public utility.....	326	545	774	406	402
Public, total.....	2,515	2,754	5,854	10,472	6,328
Residential.....	70	203	479	600	680
Military and naval.....	119	510	2,039	8,206	2,743
Nonresidential.....	763	497	1,671	3,723	1,338
Industrial.....	14	144	1,400	3,585	2,080
Other.....	748	333	271	138	48
Highway.....	884	945	1,013	907	307
Other public.....	679	957	662	970	170

<sup>1</sup> Data relate to continental United States; work-relief construction is not included. Estimates for 1942 are preliminary.

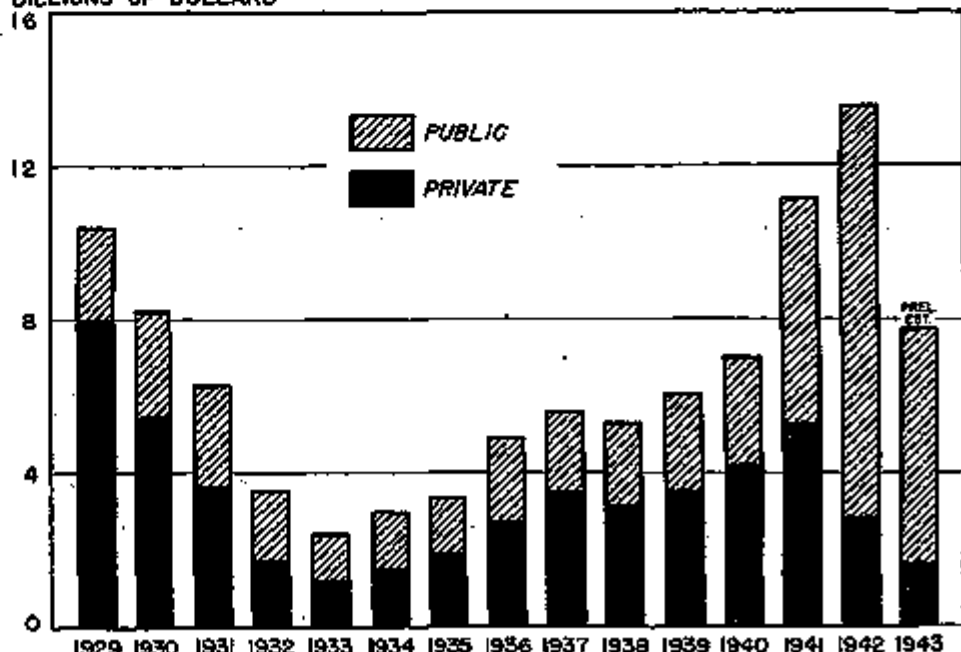
<sup>2</sup> Prepared by the Bureau of Labor Statistics, U. S. Department of Labor.

<sup>3</sup> Includes cantonments, aeronautical facilities, navy yards and docks, army and navy hospitals, etc. Beginning 1941, data are based on statistics prepared by the War Production Board.

Source: U. S. Department of Commerce, except as noted.

Chart 13.—New Construction Activity, by Type of Ownership<sup>1</sup>

BILLIONS OF DOLLARS



<sup>1</sup> Data relate to Continental United States; work-relief construction is not included.

Sources: U. S. Department of Commerce, War Production Board, and U. S. Department of Labor.

of construction in any year back as far as 1935.

This situation was reversed in the field of public housing. There, the expansion during each of the war years was repeated in 1943. While total construction was being severely reduced in 1943, public construction of new houses increased by about 13 percent from a 600-million-dollar valuation in 1942 to 680 million the following year.

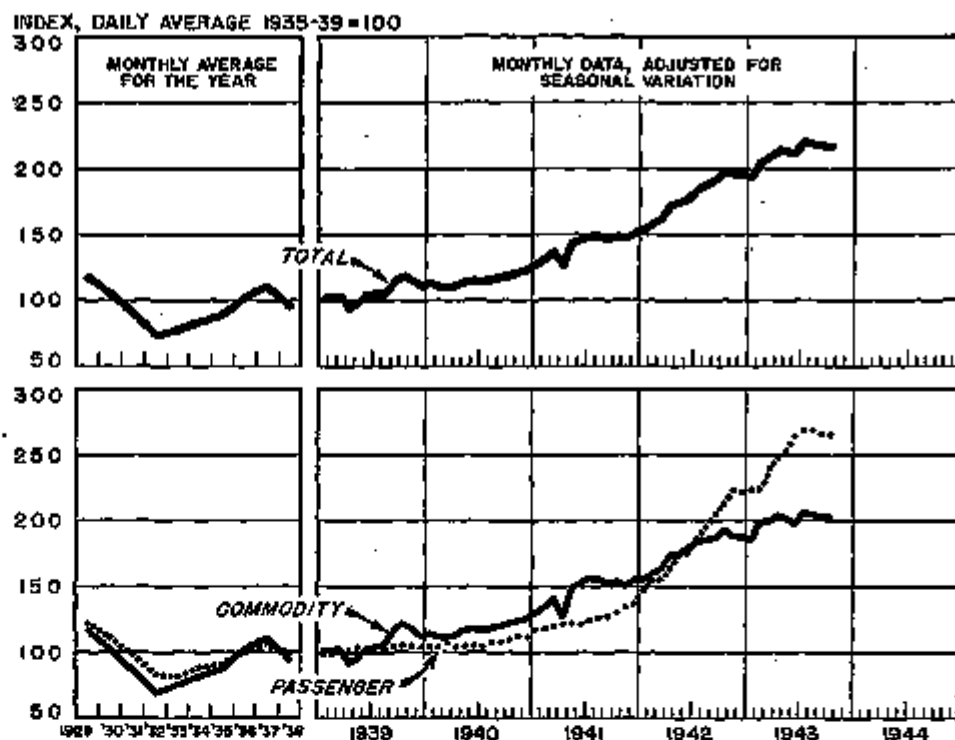
The considerably enhanced governmental participation in the residential construction field is simply a reflection of the nature of the new housing demands being met by the Government. While residential construction in general is definitely of the nonessential class, some facilities had to be added in war-expanded areas to house the new workers in those districts.

In view of the potentially temporary nature of this housing demand, privately developed projects would have been at best risky undertakings unless additional compensation was allowed. This would have entailed raising of rents, which would have greatly reduced the stimulus to movement into the war centers. Also, the risk involved was distinctly a war-engendered one. Therefore the only alternative was the development of low-cost housing facilities by the Government.

In the latter part of 1943, there were indications that the trends in public and private housing were being reversed. Public residential construction in the last half of the year was lower than in the first half, while private projects picked up after the middle of the year, once again assuming the ascendancy over public activity in the residential field.

In considering the construction situation, two points need to be borne in mind. In the first place, this review has been confined to construction activity in the continental United States, and hence

Chart 15.—Volume of Transportation<sup>1</sup>



<sup>1</sup> See note 1, table 15.

Source: U. S. Department of Commerce.

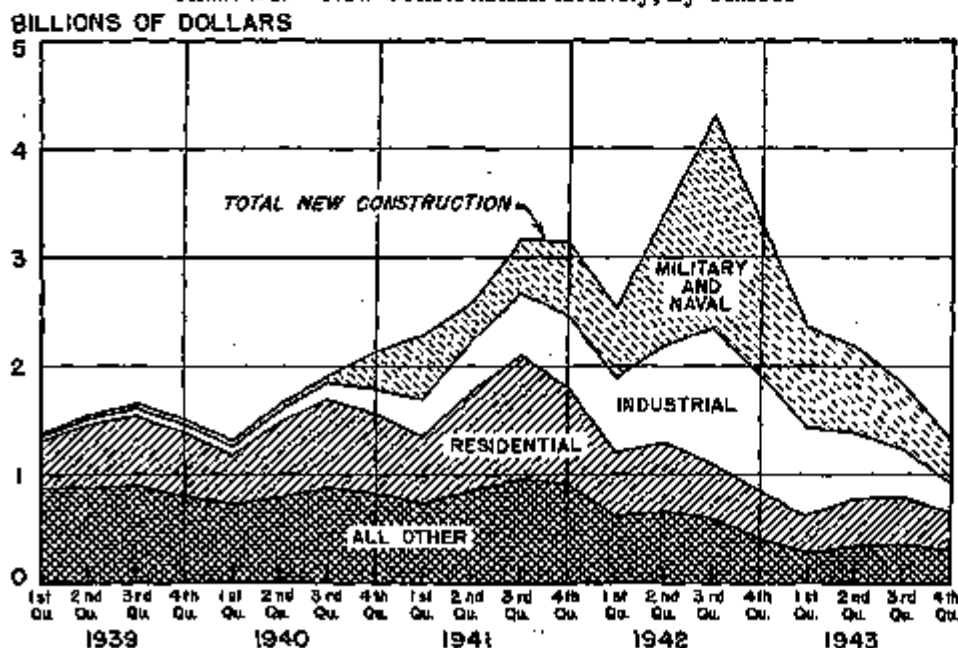
it overlooks the fairly substantial building operations undertaken outside the Nation's boundaries.

Secondly, some of the rise in dollar values represented an increase in construction costs rather than additional physical capacity. While available data do not adequately reflect construction costs, they indicate that the rise in costs has been of substantial magnitude.

On the whole new construction, par-

ticularly privately financed building, was one of the most deflated sectors of the economy in 1943. That its volume was not lower, seems to have been due primarily to the carry-over from the vast program undertaken in 1942. For this reason the rate of activity at the year's close gives a closer approximation of the pace which construction will have for the duration of the European war than does the total for the year.

Chart 14.—New Construction Activity, by Classes<sup>1</sup>



<sup>1</sup> Data relate to Continental United States; work-relief construction is not included. Data for fourth quarter of 1943 are preliminary estimates.

Sources: U. S. Department of Commerce, War Production Board, and U. S. Department of Labor.

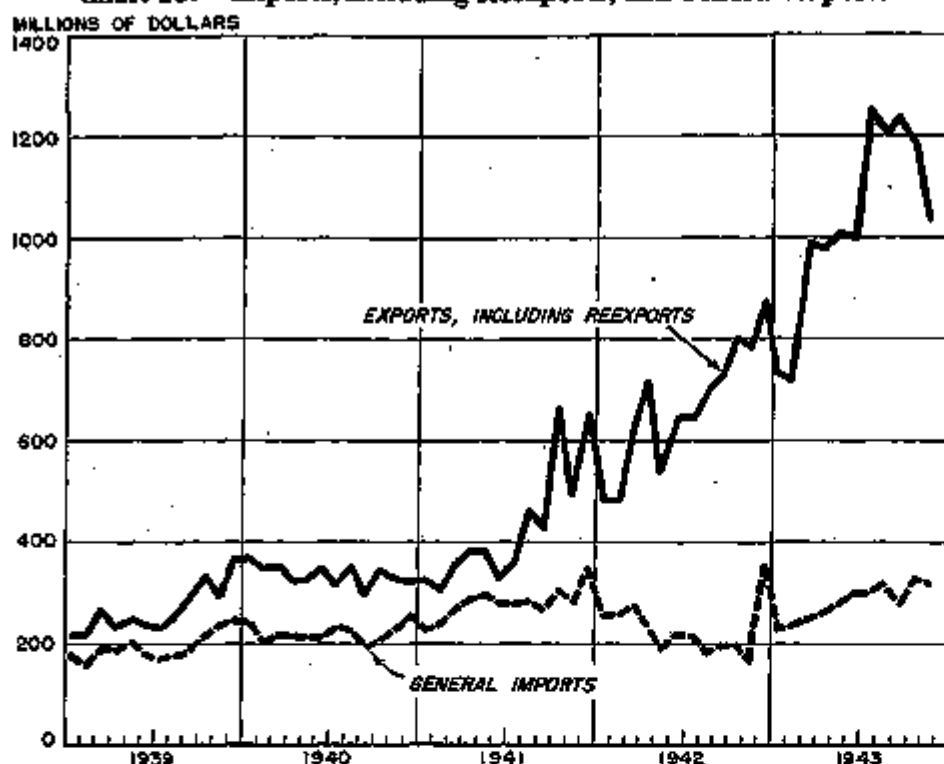
### Transportation

An outstanding performance in 1943 was made by the American transportation system in moving the greatest output of goods and mass movement of troops and civilians on record. Although faced with such obstacles as critical shortages of manpower and replacement parts, and with only a very slight net increase in equipment, transportation volume increased 20 percent from the already phenomenal 1942 traffic. The Department of Commerce index of the combined volume of passenger and freight traffic more than doubled between 1939 and 1943.

Despite a sharp decrease in domestic water-borne commerce, due to lack of shipping for the intercoastal and coastal lanes and to an unusually short shipping season on the Great Lakes, the gains made by all other types of freight carriers brought the over-all ton-mile index to 13 percent above the previous year.

Class I railroads, with increases in serviceable cars and locomotives of only 1 and 2 percent respectively, moved a record volume of goods a greater distance than ever before. The result was a 14 percent gain above the previous year. Common and contract motor carriers

Chart 16.—Exports, Including Reexports, and General Imports



Source: U. S. Department of Commerce.

Table 15.—Volume of Transportation<sup>1</sup>  
(Index, daily average 1935-39=100)

Item	1939	1940	1941	1942	1943
Commodity and passenger, total	166	115	142	179	214
Transit, excluding local	166	117	140	186	220
Commodity, total	107	118	147	178	201
Railroad	104	115	140	164	221
Air	133	168	206	253	268
Intercity motor truck	114	130	172	190	206
Oil and gas pipelines	110	112	130	149	192
Domestic water-borne	112	121	124	68	80
Passenger, total	102	107	126	154	256
Transit, excluding local	105	113	143	226	356
Railroad	109	108	133	224	396
Air	149	221	294	291	210
Intercity motor bus	104	110	142	214	284
Local transit	100	102	110	140	173

<sup>1</sup> Indexes for commodity and passenger traffic (except local transit) are based upon ton-miles and passenger-miles, respectively; index for local transit is based upon number of passengers. All 1943 data are partially estimated.

Source: U. S. Department of Commerce.

overcame their severe manpower and parts shortages by greatly increasing their efficiency through "joint action" plans and by a more intensive use of their aging rolling stock.

While the ton-mile index increased 8 percent from 1942 to 1943, the last quarter of the year showed virtually no change from the corresponding 1942 period. The vastly increased pipe-line construction program in 1943 was reflected in a ton-mile increase of almost 30 percent by this type of transport. The largest increase in commodity transport was the 61 percent gain from 1942 recorded by commercial airlines with air mail and express pound-miles flown increasing by 71 and 26 percent respectively.

Again in 1943 as in the previous year, the most substantial gains were made in

the passenger transport field. The movement of our continental armed forces both on official duty and on furlough was enormous. It required more than 30 percent of the coach facilities, 50 percent of the Pullman accommodations afforded by the railroads, and a large share of the services offered by other types of carriers.

Civilian travel continued the sharp upward trend caused by the continued migration of war workers, and the reduction in the use of private passenger automobiles and increased incomes. As a matter of fact, the only deterrents to this almost unlimited demand were the capacity of the transport system, the discomforts of wartime travel, and the appeals of the Government and the carriers themselves. The Department's over-all passenger-mile index in 1943 soared to 256 (1935-39 daily average=100), an increase of 39 percent from the preceding year.

The major contributing factor to this phenomenal rise was the 62 percent increase in rail passenger-miles. The railroads achieved seating capacities and load factors which most railroad men hardly thought possible a short time ago. Intercity motor carriers of passengers and the local transit lines, although faced with serious equipment and manpower problems, increased their output by 33 and 24 percent respectively, while the airlines, with only a few aircraft returned to them by the armed forces, maintained seating capacities of well over 80 percent to register a 7 percent gain from 1942.

That the upward trend of the past few years cannot be continued in 1944 can be seen by a glance at the monthly movement during 1943. (See chart 15.) The rate of gain above 1942, which was

nearly 30 percent in the early part of the year, was pared to less than 15 percent by the latter half of 1943. In fact, by the end of the year the two major carriers of merchandise, railroads and trucks, were operating at only a little higher rate than in December 1942.

Near the close of the year a threatened strike by some railroad workers was forestalled by the action of the President who placed the railroads under the temporary control of the Government on December 28, 1943. This step emphasizes the importance of our transportation system to the war effort and the need for the speedy solution of the many problems facing the industry.

### Foreign Trade

The dollar value of United States export shipments in 1943, including lend-lease far surpassed all previous records. Exports for the first 10 months of 1943 amounted to 10.4 billion dollars, or more than 2 billion greater than the 12-month total for the previous high year 1920.

For the full year 1943 the value of exports are estimated to have been almost 13 billion dollars, about 60 percent more than the 1942 total. It is to be noted that the exports data do not include shipments to our armed forces.

Imports showed no such spectacular increase, but the estimated 1943 dollar total of 3.4 billion dollars nevertheless surpassed the highest levels since 1929. This was no small achievement in view of the severance of trade with areas formerly furnishing almost half of our total imports and in view of the shipping shortages in the early part of the year. The rise in both export and import dollar totals was attributable, in part, to further price increases in 1943, but represented chiefly an expansion in the actual quantities of goods shipped.

The most striking feature in total exports since 1940, and a key factor in computing the export surplus, was the increasing predominance of lend-lease shipments. These shipments constituted about 14 percent of the total value of exports in 1941. They rose to 60 percent of the total in 1942, to 75 percent in the first quarter of 1943 and to more than 80 percent toward the end of the year. They amounted to 4.9 billion dollars in 1942, a total which was exceeded in the first 7 months of 1943.

In view of the fact that these exports amounted to almost 1 billion dollars a month in the latter part of the year the total for the year is estimated to have

Table 16.—United States Exports and Imports  
(Millions of dollars)

	1939	1940	1941	1942	1943 <sup>1</sup>
General imports	2,318	2,825	3,345	2,743	3,409
Total exports including reexports	3,177	4,021	5,147	8,036	12,700
Lend-lease shipments	0	0	741	4,892	10,000
Cash exports (nonlend-lease)	3,177	4,021	4,406	3,144	2,700
Excess of cash exports over general imports	859	1,196	1,061	403	700

<sup>1</sup> November and December data estimated by Bureau of Foreign and Domestic Commerce.

<sup>2</sup> Excess of general imports over cash exports.

Source: U. S. Department of Commerce.

approximated 10 billion dollars. It is important to point out that exports to places outside the Western Hemisphere consisted very largely of lend-lease goods, whereas hemispheric exports were predominantly nonlend-lease or "cash-purchase" goods.

Exports for cash were on the average about 14 percent lower in 1943 than in 1942. This came about, however, entirely as a result of the displacement of commercial exports by lend-lease shipments to countries outside the Western Hemisphere. Cash exports to Latin America and Canada in 1943 were not only larger than in 1942 but were also substantially above peacetime levels.

Table 17.—Net Balance of United States Trade With Latin American Republics

(Millions of dollars; export balance (+), import balance (-).)

Country	Merchandise, gold and silver		Merchandise	
	Jan.-Sept. 1942	Jan.-Sept. 1943	Jan.-Sept. 1942	Jan.-Sept. 1943
Total.....	-312	-404	-222	-371
Mexico.....	-33	-20	+19	-14
Cuba.....	-32	-104	-33	-104
Argentina.....	-60	-73	-60	-73
Bolivia.....	-10	-11	-10	-9
Brazil.....	-52	-51	-52	-51
Chile.....	-64	-82	-62	-78
Colombia.....	-48	-43	-37	-43
Peru.....	-6	-6	+5	+4
Uruguay.....	-7	-27	-7	-27
Venezuela.....	+10	+19	+20	+21
All other.....	-12	-3	(1)	+3

1 Less than half a million dollars.

Source: U. S. Department of Commerce.

Finished manufactures made up the largest single class of exports and at the same time constituted a larger share of the total in 1943 as compared with 1942. This was in large part due to the rising flow of military goods—aircraft, tanks, explosives, firearms, and other war implements—to members of the United Nations.

Data on imports for the first 9 months of the year indicate that almost half of the increase in the dollar volume of imports from 1942 to 1943 was in foodstuffs, a class which constituted almost 30 percent of the total imports for the period. The importation of many essential metals and minerals also expanded to a significant degree in the year just past. The greater amounts of foodstuffs and strategic metals imported in 1943 were of vital importance to the United States in its expanding military efforts.

One aspect of movement in our foreign economic relations is not reflected in the usually presented data, that is, reverse lend-lease. As the size of our army on foreign soil grew and as the conditions of our Allies improved, the United States received increasing material help from reverse lend-lease operations. So far the only published data cover the situation with respect to the British Commonwealth of Nations.

The British Commonwealth reported that expenditures for reverse lend-lease aid to the United States totaled 1.2 billion dollars up to June 30, 1943. The United Kingdom's contribution was 371 million dollars of which 331 million was

spent for goods and services, 169 million for shipping, and 371 million for airports, barracks, hospitals, and other construction. In the first 6 months of 1943, the British Commonwealth was spending for these purposes at an annual rate of 1¼ billion dollars.

The extent to which the Latin American Republics helped supply needed materials may be deduced in some degree from table 17 which presents a comparison of the trade balances of these countries with the United States for the first three quarters of 1942 and 1943.

Excess of merchandise imports from these countries over exports to them increased almost 70 percent from 222 million dollars in the first 9 months of 1942 to 371 million in the similar 1943 period. After allowing for changes in prices of imports relative to exports and knowing that United States exports to these countries rose from 1942 to 1943, it is clear that these Nations were supplying this country with a significantly enlarged volume of needed goods in 1943.

The majority of the Latin American Republics contributed to the increase in the merchandise import balance. Those showing the greatest increases were Cuba, Mexico, Uruguay, and Chile. In the process of expanding their trade with the United States these countries added considerably to their dollar balances and hence built up substantial reserves for financing their imports when world conditions are more favorable for such a development.

The main trends of foreign trade appeared to have become stabilized during the latter part of 1943. Lend-lease shipments ranged around 1 billion dollars a month, nonlend-lease exports slightly over 200 million, and imports about 300 million. With the domestic economy approaching full use of productive capacity, with most available sources of

imports already tapped, and with a considerable rigidity observable in our import and export programs, our foreign trade appeared to have reached levels by the end of 1943 which would remain fairly stable until further major changes occurred in the world political situation.

### Commodity Prices and Price Controls

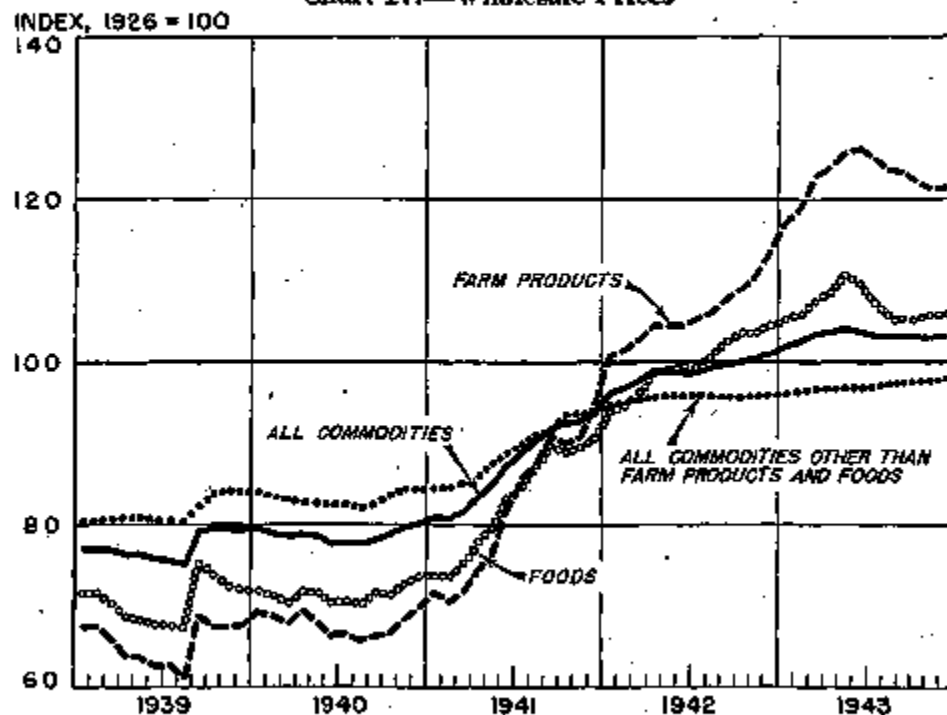
The extensive price control mechanism initiated in 1942 and supplemented to some degree in the following year held prices on a remarkably even keel during the past year of economic mobilization for total war. This is evidenced by the fact that the wholesale price index averaged only 2 percent higher in 1943 than in 1942 while the cost-of-living index rose only about 6 percent.

Within the year 1943 the increases in both indexes were of even smaller magnitudes. The upward trend was limited to the period between January and May, after which there was even a slight decline in the two indexes.

Aside from a 4 percent gain for petroleum products, the only significant gains in wholesale prices during 1943 were for foods, farm, and forest products. As indicated by table 19, lumber prices moved up about 8 percent from January to November, grains about 15 percent, and fruits and vegetables about 16 percent.

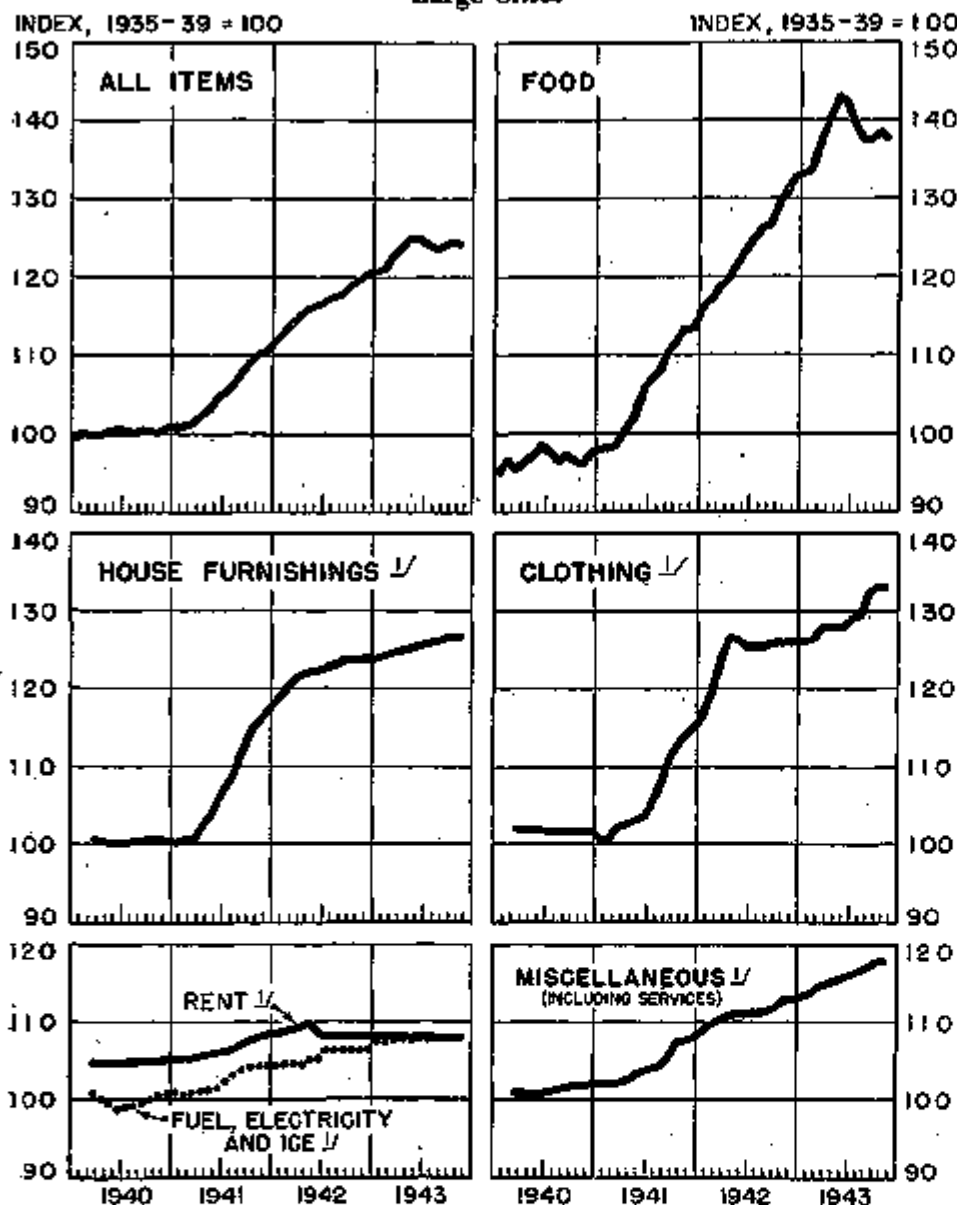
As these advances and minor increases for a few other products were offset by declines of 8 percent for meats, 6 percent for hides, and 2 percent for dairy products, the November index for all commodities stood at 103 (1926=100), or only one point higher than in January. In contrast the increase in wholesale prices during 1941 and 1942 was 17 percent and 8 percent, respectively.

Chart 17.—Wholesale Prices



Source: U. S. Department of Labor.

Chart 18.—Cost of Living of Wage Earners and Lower-Salaried Workers in Large Cities



Source: U. S. Department of Labor.

Table 18.—Cost of Living Indexes (1935-39=100)

	1940	1941	1942	Sept. 1942	Jan. 1943	Nov. 1943
All items.....	100.2	105.2	116.9	117.8	120.7	124.1
Clothing.....	101.7	100.3	124.2	125.8	128.0	133.0
Food.....	100.6	105.5	123.0	126.6	133.0	137.3
Fuel, electricity, and ice.....	99.7	102.2	105.4	108.2	107.3	108.0
House furnishings.....	100.5	107.5	122.2	123.6	123.8	126.5
Rent.....	104.6	106.5	108.6	108.0	108.0	108.0
Miscellaneous.....	101.1	104.0	110.9	111.4	113.2	117.7

Source: U. S. Department of Labor.

The rise in the cost of living was also moderate during 1943 as shown by table 18. Clothing prices moved up about 6 percent, food about 3 percent, the miscellaneous group about 4 percent, and other items by smaller amounts. These increases brought the November combined index to 124, only about 3 percent higher than in January. Over the entire

war period from August 1939 to November 1943 the cost-of-living index rose 26 percent.

The chief development relating to price control regulations was the provision of dollar and cent ceilings for many products formerly covered by base period formula ceilings as in the General Maximum Price Regulation. Dollar-and-cent ceilings were also applied to many farm products as their prices reached levels making them subject to control. Margin-type ceilings were frequently applied where dollar-and-cent ceilings were not practicable.

These moves toward more specific pricing were necessary for ceiling simplification and enforcement purposes, but they greatly increased the burden of formulating and revising price control regulations because they involved more differential pricing. For example, the new regulations aimed to designate uniform

dollar-and-cent ceilings for all stores of the same general class within each community. So it was necessary to establish a series of community ceiling prices with differentials calculated to yield the normal profit margin after due allowance for differences in transportation costs, volume of business, trade practices, etc.

To aid in this overhauling of price regulations, and to meet its growing need for more trade and public support, the Office of Price Administration strengthened its Industry Advisory Committees to more than 3,000 members and its local community Price Panels to about 50,000 members. All these members were volunteer workers.

The outstanding event in supplementary aids to price control was the growth in war subsidy payments, which reached an annual rate of 1,143 million dollars for all commodities involved as of October 15, 1943. About 73 percent of the war subsidy payments were for foods and livestock feeds, 12 percent for metals and metal ores, 9 percent for transportation of petroleum products, and 6 percent for coal transportation, jewel bearings, Chilean nitrate of soda, automobile tires, and several miscellaneous commodities.

Although these subsidies were an important factor in preventing substantial price rises during the year, continuance of most of the food and feedstuffs subsidies became increasingly uncertain due to the lack of agreement concerning the need for them.

It is clear from these data that the most significant price advances during 1943 were for farm products or goods made from them. Although these advances were small, they were important because when piled on top of previous price increases they exerted pressures against price-wage relationships already under strain from rising living costs.

Major price and wage stabilization activities in 1943 were focused on extending and supplementing the controls begun in 1942 under the original Price Control Act, the General Maximum Price Regulation, and the October 1942 amendment to the first Price Control Act. Coordinated largely by the Director of Economic Stabilization, other agencies executed and implemented the policies set forth in these instruments and in the "hold the line" Executive Order of April 1943.

Activities to shield the cost of living from further rises in consumer food prices were administered partly by the War Food Administration and the Department of Agriculture. They sought to increase food output enough so that essential civilian needs would be met after setting aside about 25 percent of the total production for lend-lease and the armed forces. Another part of these activities was administered by the Office of Price Administration through price control and rationing regulations and related enforcement mechanisms.

As jointly determined by the War Food Administration and the Office of Price Administration, still another part was administered by the Commodity Credit Corporation and the Reconstruction Finance Corporation. The former carried out an enlarged program of commodity price-support loans or purchases. The

Table 19.—Indexes of Wholesale Prices  
(1921=100)

Class or group	Annual average			September 1942	January 1943	November 1943
	1940	1941	1942			
All commodities	79.6	87.3	98.3	99.5	101.6	102.0
Economic classes:						
Raw materials	71.9	83.5	100.6	102.2	108.2	111.3
Semi-manufactured articles	79.1	85.9	92.6	92.9	92.8	92.9
Manufactured products <sup>1</sup>	81.6	89.1	98.6	99.3	100.1	100.2
Special groups:						
Commodities other than farm products	80.5	88.3	97.0	97.7	98.5	98.8
All commodities other than farm products and foods	83.0	90.0	95.5	95.5	96.0	97.4
Farm products	67.7	82.4	105.9	107.8	117.0	121.4
Grains	68.0	76.9	92.9	93.0	107.5	123.2
Livestock and poultry	69.2	91.0	117.8	122.1	129.2	130.3
Foods	71.3	82.7	90.0	92.4	105.2	105.6
Cereal products	78.3	80.1	90.3	89.1	90.6	84.7
Dairy products	77.0	87.3	100.0	103.3	113.4	110.9
Fruits and vegetables	63.1	67.6	95.3	97.6	103.0	118.6
Meats	73.7	80.4	111.8	116.0	115.6	108.9
Building materials	94.8	105.2	110.2	110.4	109.8	118.1
Lumber	102.9	122.5	122.8	123.2	133.8	143.9
Chemicals and allied products	77.0	84.6	97.1	98.2	100.2	100.3
Chemicals	85.1	97.2	98.7	99.3	98.9	98.2
Oils and fats	44.3	77.4	103.1	103.5	105.6	102.0
Fuels and lighting materials	71.7	76.2	78.6	78.0	79.3	81.2
Petroleum products	50.0	57.2	59.9	60.6	60.8	62.5
Hides and leather products	100.3	105.3	117.7	118.1	117.6	116.5
Hides and skins	91.9	105.4	117.0	118.0	119.0	108.6
Housefurnishing goods	88.5	94.3	102.4	102.5	102.5	102.8
Metals and metal products	85.8	96.4	103.6	103.8	103.8	103.8
Iron and steel	81.3	90.4	97.2	97.2	97.2	97.1
Nonferrous metals	81.3	84.4	85.7	88.0	80.0	80.0
Textile products	73.3	84.8	98.8	97.1	97.3	97.7
Cotton goods	71.4	84.2	112.4	112.7	112.9	112.9
Rayon	89.3	90.7	90.3	88.3	90.3	90.3
Woolen and worsted goods	83.7	90.6	110.4	111.7	112.4	112.6
Miscellaneous	77.3	82.0	80.7	82.3	90.7	93.3

<sup>1</sup> Index for November 1943 is preliminary.  
Source: U. S. Department of Labor.

latter administered other forms of subsidies including those involved in the meat and butter price roll-backs and most of the nonagricultural subsidies.

In the field of wage rate control the War Labor Board sought to stop wage increases at the September 1942 level, designated as the general price-wage relationships to be preserved. The general criterion, with exceptions based on hardship and war needs, was the "Little Steel" formula which permitted a 15 percent advance over January 1941 wage rates to compensate for increases in the cost of living.

Part of the difficulty in holding to this 15 percent figure is indicated by the fact that the actual rise in the cost-of-living index from January 1941 to November 1943 was about 23 percent. Also, the cost of living in some areas had increased more than indicated by these figures which represent the general average in 57 large cities. Although increased earnings from more continuous employment and longer hours were sufficient to absorb the differential in most cases, a number of wage rate increases were granted in coal mining, aircraft production, and other industries.

While the economy's overall price-wage relationships were preserved fairly well in 1943 there was uncertainty at the end of the year regarding further rises in the cost of living and increasing pressure for higher wage rates in other important industries such as railroad transportation.

#### Income Payments and Savings

The expansion of economic activity from 1942 to 1943 resulted in a 26 billion dollar rise in income payments to individuals, which reached a new high of 142 billion dollars in 1943. Wages and

salaries of employed persons, including those in the armed forces, accounted for more than 21 billion dollars of this rise. Net farm income, which increased 32 percent over the 1942 total, was responsible for another 3 billion dollars of the rise. The bulk of the remainder came from gains in the net income of nonagricultural proprietors and in Government allowances to soldiers' dependents.

Wages and salaries of workers in manufacturing industries increased about 7

billion dollars, nearly 30 percent above the 1942 level. This rise reflected the combined effect of an 11 percent increase in number of workers, a 12 percent gain in average hourly earnings, and an average increase of two hours in the length of the work week.

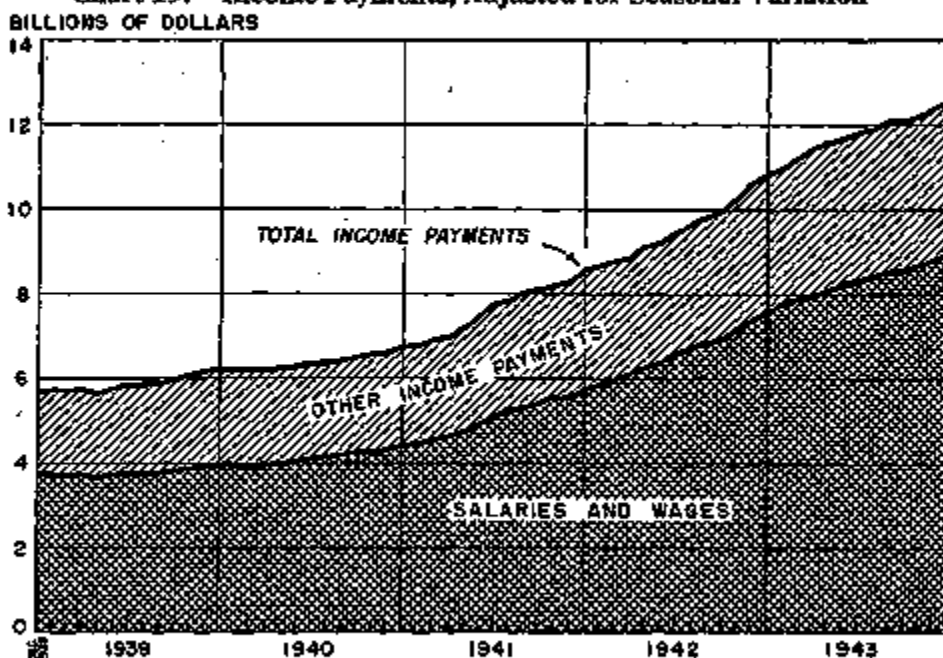
While average earnings of employees in trade, service, and other industries appear to have increased on about the same scale as in manufacturing, the number of such employees declined. The marked shift of workers from low-wage and short-hour industries into high-wage and long-hour industries was an important factor in the growth of overall wages and salaries, since there was no significant change in the aggregate number of employed workers.

The 32 percent increase in net farm income came largely from the higher prices received for farm products, though the 2.4 percent gain in total farm output and the shift in farm output toward relatively high-value products were of some influence.

Even though a larger portion of the income of individuals was siphoned off by taxes in 1943 than in any previous period, personal tax payments rising from 6.6 billion dollars in 1942 to almost 18 billion dollars the following year, individuals were left with a new high aggregate of income after taxes. Disposable income of individuals reached about 124 billion dollars, 14 percent above 1942.

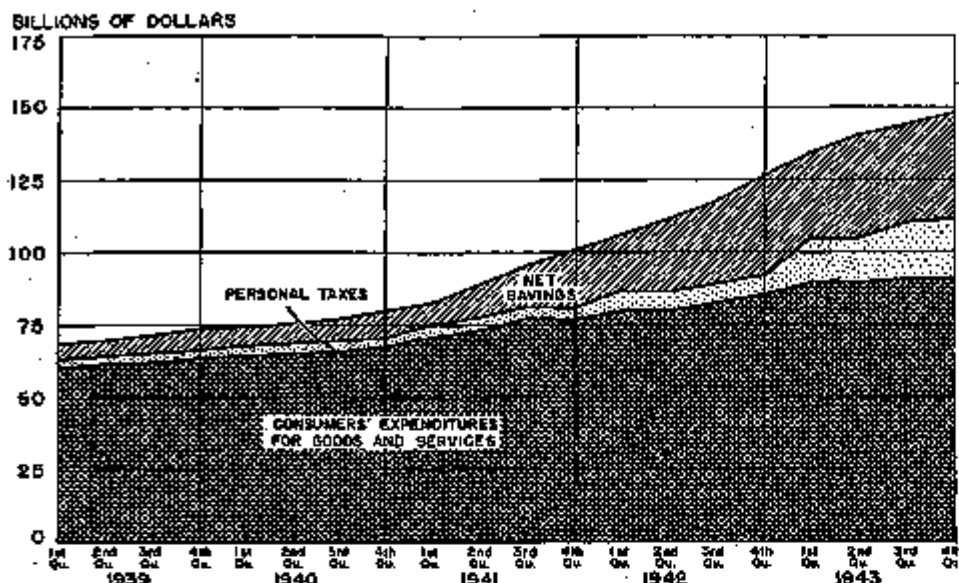
As a consequence of this record flow of disposable income there was continuous pressure on the level of consumers' expenditures, despite the tightness of the supply situation. Consumer outlays for goods and services advanced 10 percent from the 1942 total, amounting to almost 91 billion dollars, rising prices being the dominant factor in the increase.

Although losses in consumer satisfaction due to substitute goods and re-

Chart 19.—Income Payments, Adjusted for Seasonal Variation<sup>1</sup>

<sup>1</sup> Data for the last three months of 1943 are preliminary estimates.  
Source: U. S. Department of Commerce.

Chart 20.—Disposition of Income Payments to Individuals, Adjusted for Seasonal Variation, at Annual Rate<sup>1</sup>



<sup>1</sup> Data for the fourth quarter of 1943 are preliminary estimates.

Source: U. S. Department of Commerce.

stricted services must be taken into account, all the available statistical evidence points to the fact that "real" consumption by the American people in 1943 was approximately equal to that of any year since the present war began and considerably above pre-war levels. It is thus evident that consumption has been surprisingly well maintained and now stands little chance of suffering more serious restrictions in the future, except possibly in the available food supply.

Furthermore, the war experience has thrown a great deal of light on the consumption patterns needed to utilize the vast industrial potential of the American economy. Both business and Government may well be challenged by the war records of production and civilian consumption in the years to come.

In spite of the increases in both consumers' expenditures and personal taxes in 1943, the rise in income was large enough to allow a further advance in individual savings. The 1943 total amounted to about 34 billion dollars as compared with savings of 27.0 billion dollars in 1942 and only 6.0 billion dollars in 1939.

The exceptionally high relation between savings and disposable income that prevailed in both 1942 and 1943 cannot

be explained by any single influence. Patriotic motives and consumer resistance to high wartime prices and quality deterioration, particularly with respect to goods whose purchase could readily be postponed, were undoubtedly significant factors. But more important, perhaps, was the absolute lack of many goods that stand high in the consumer's preference scale and the fact that price control was very largely effective in restricting the amount necessary to spend for the available supplies.

Table 21.—Disposition of Income Payments<sup>1</sup>  
(Billions of dollars)

	1939	1940	1941	1942	1943 <sup>2</sup>
Income payments to individuals.....	70.6	78.5	92.2	115.5	141.6
Less: Personal taxes and nontax payments.....	3.1	3.6	4.0	6.6	17.3
Federal.....	1.3	1.4	2.0	4.7	15.3
State and local.....	1.9	1.9	1.9	1.9	2.0
Equals: Disposable income of individuals.....	67.7	74.9	88.2	108.9	124.1
Less: Consumer expenditures.....	61.7	65.7	74.0	82.0	90.6
Equals: Net savings of individuals.....	6.0	7.6	13.7	26.9	33.6

<sup>1</sup> Detail will not necessarily add to totals due to rounding.

<sup>2</sup> Preliminary.

Source: U. S. Department of Commerce.

### Corporate Earnings

Corporate earnings, after provision for Federal income and excess profits taxes, continued to increase in 1943 with a gain of 11 percent over the previous year's total. The estimated total of 8.2 billion dollars was twice that of 1939 and moderately above the previous peak reached in 1929.

Though the increase in profits before taxes has been much more striking throughout the war period, it was in large part offset by increased Federal income and excess profits taxes. Corporate income tax liability was only 1.2

billion dollars in 1939, an effective rate of less than 23 percent, compared to provision for taxes amounting to nearly 65 percent of profits before taxes in 1943.

Net dividend payments during the war period failed to keep pace with increased corporate profits, reflecting the cautious attitude of business management. In 1939 net dividends paid amounted to 95 percent of profits after taxes whereas in 1943 this ratio was cut to under 50 percent. During 1942 and 1943 corporations were establishing reserves to finance reconversion and to tide them over any dislocations which may arise with the return of peace but in addition to such reserves undistributed profits rose appreciably.

Most of the increase in corporate profits, both before and after taxes, from 1942 to 1943, occurred in manufacturing industry. Heavier excess profits taxes resulted in a drop in manufacturing profits after taxes in 1942 despite a large increase in earnings before taxes. However, continued expansion in production and no change in tax rates allowed an increase in profits after taxes in 1943 although they appeared to be still slightly below the 1941 peak.

Profits of the transportation industry continued to rise but with indications of leveling off as capacity of our transport facilities was approached. Both the trade and public utilities groups showed increases in profits after taxes in 1943, returning to approximately the 1941 levels after moderate declines in 1942.

Table 22.—Estimated Corporate Profits Before and After Taxes

(Millions of dollars)

Industrial group	1939	1940	1941	1942	1943 <sup>1</sup>
Profits before taxes					
Total.....	5,390	7,390	14,413	10,837	22,900
Mining.....	91	104	375	378	400
Manufacturing.....	2,124	2,944	6,030	12,543	14,750
Trade.....	760	1,033	2,022	2,469	3,060
Transportation.....	108	259	715	1,615	2,180
Public utilities.....	732	807	1,674	1,267	1,480
Other.....	355	81	371	771	1,000
Profits after taxes					
Total.....	4,038	4,847	7,277	7,376	8,200
Mining.....	64	92	181	202	200
Manufacturing.....	2,579	3,410	6,990	4,864	4,950
Trade.....	593	734	1,158	1,052	1,150
Transportation.....	36	124	400	751	800
Public utilities.....	611	677	638	609	700
Other.....	215	190	139	79	300

<sup>1</sup> Preliminary, based on reports for first three quarters for a limited number of corporations.

Source: U. S. Department of Commerce.

### Finance

Under the continuing all-pervasive influence of war expenditures, government fiscal and private financial developments were even more striking in 1943 than in the previous war years. Federal Government budgetary expenditures in 1943 amounted to 88 billion dollars, 33 billion more than outlays in 1942. While nonwar expenditures exhibited little change over the year, war

Table 20.—Income Payments to Individuals<sup>1</sup>  
(Billions of dollars)

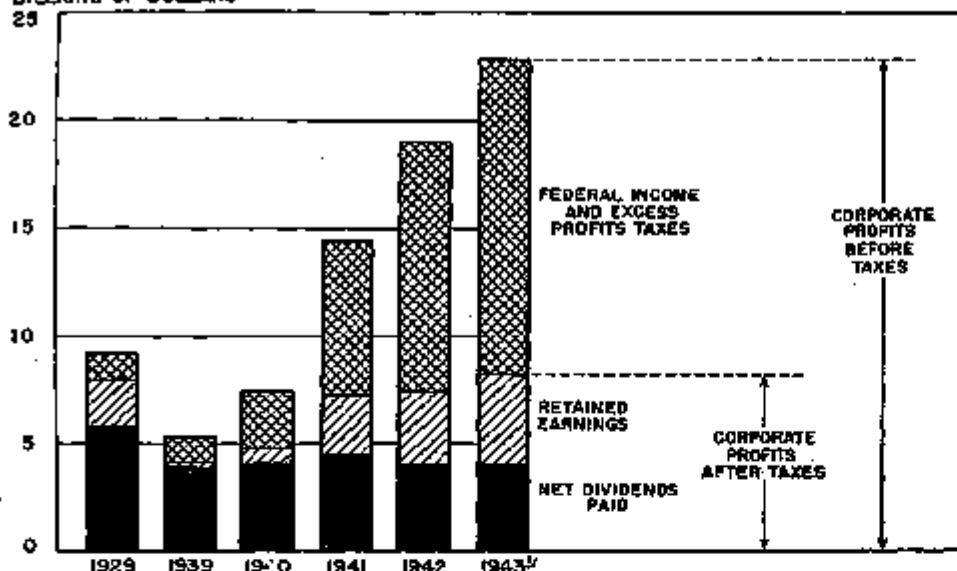
	1939	1940	1941	1942	1943
Total.....	70.6	78.5	92.2	115.5	141.6
Salaries and wages.....	45.7	49.8	61.4	79.9	100.6
Direct and other relief.....	1.1	1.1	1.1	1.1	.8
Social Security benefits and other labor income.....	1.8	2.0	1.9	2.1	2.8
Dividends and interest.....	8.9	9.2	8.7	9.3	9.3
Entrepreneurial income, net rents, and royalties.....	13.4	14.5	18.1	23.1	27.6

<sup>1</sup> Detail will not necessarily add to totals due to rounding; estimates for 1943 are preliminary.

Source: U. S. Department of Commerce.

Chart 21.—Corporate Profits Before and After Taxes

BILLIONS OF DOLLARS



\* Estimates are based upon corporate profits reports for the first three quarters of 1943.

Source: U. S. Department of Commerce.

spending rose not only absolutely but also in proportion to the total.

Whereas in 1942, 50 billion dollars or 89 percent of all budget expenditures was spent for war purposes, 82 billion dollars or 93 percent of the total was classed as war outlays in this past year. The vastness of these magnitudes is one of the clearest indicators of the tremendous claims which total war was making on the economy.

The spectacular aspects of the Gov-

ernment expenditures picture may lead one to under-emphasize events almost as striking in the revenue field. In 1943 net budgetary receipts of 34.6 billion dollars were over double the collections made in the previous year. While all major classes of receipts were higher in 1943, income taxes furnished the bulk of the additional revenue. These rose from 11 billion dollars in 1942 to almost 27 billion in the 12 months of 1943. This

increase was only in part due to higher rates and lower exemptions.

Perhaps equally as important in explaining the rise was the change in the law relating to taxes on individual incomes. The withholding provisions of the Current Tax Payments Act of 1943, in placing payments on a current basis for most individuals during the second half of last year, allowed the Treasury to tap incomes which were on the whole considerably higher than incomes in 1941 and 1942.

A combination of these factors—higher incomes, increased rates, and lower exemptions—resulted in individual income tax collections of over 12 billion dollars, three times as large as the total collected in the previous year. These greater taxes represented about 8½ percent of income payments to individuals in 1943, in contrast with the 3½ percent share which individual income taxes represented a year earlier.

Corporate income and profits tax collections also rose markedly from 7 billion dollars in 1942 to about 14 billion in 1943. In addition to these corporate taxes, the United States Treasury received a substantial sum of money as a result of the renegotiation of war contracts. Much of the rise in the item marked "other receipts" in table 23 resulted from collections from this source.

The doubling of receipts, striking as it was in itself, proved inadequate in the face of the huge cash requirements of the Federal Government. Consequently, the deficit continued to climb. The budget deficit for 1943, totalling 53½ billion dollars, was 35 percent greater than in 1942 and five times as large as the deficit

Table 23.—Budget Expenditures and Receipts, Calendar Years<sup>1</sup>

(Billions of dollars)					
	1939	1940	1941	1942	1943
<b>EXPENDITURES</b>					
War activities.....	1,388	2,778	12,705	49,800	61,359
Unemployment relief.....	2,181	1,813	1,513	794	187
Agricultural adjustment program.....	997	1,016	726	740	633
Transfers to trust accounts.....	202	240	385	478	479
Interest on the public debt.....	971	1,078	1,145	1,452	2,191
Debt retirement.....	53	144	100	88	(*)
All other.....	2,219	2,738	2,577	2,774	2,570
<b>Total.....</b>	<b>8,941</b>	<b>9,803</b>	<b>19,153</b>	<b>56,048</b>	<b>68,084</b>
Total less debt retirement.....	<b>8,888</b>	<b>9,659</b>	<b>19,053</b>	<b>55,960</b>	<b>67,894</b>
<b>RECEIPTS</b>					
Income taxes.....	1,651	2,368	4,233	11,089	26,540
Employment taxes.....	764	860	1,043	1,330	1,544
Miscellaneous internal revenue.....	2,308	2,535	3,372	4,360	4,940
Customs.....	333	330	428	323	305
Other receipts.....	206	265	520	307	2,220
<b>Total.....</b>	<b>5,262</b>	<b>6,416</b>	<b>9,613</b>	<b>17,387</b>	<b>35,704</b>
Less: Net appropriation to Fed. old-age and survivors insurance fund.....	869	582	783	985	1,210
<b>Net receipts.....</b>	<b>4,393</b>	<b>5,834</b>	<b>8,830</b>	<b>16,402</b>	<b>34,494</b>

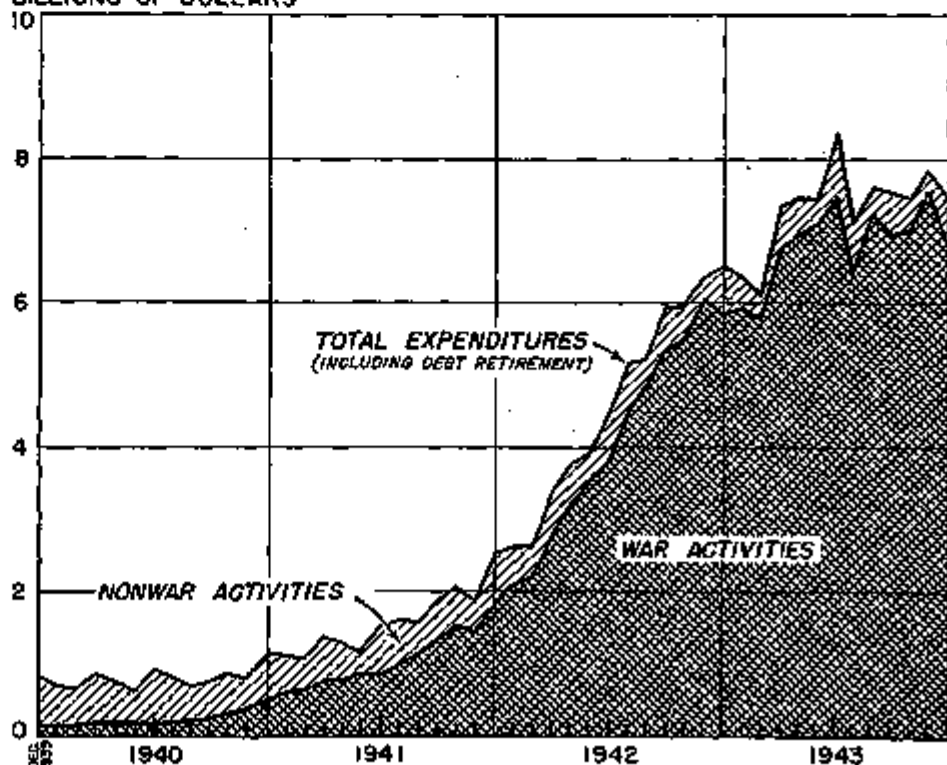
<sup>1</sup> General and special accounts. Classifications are those currently published in the Survey of Current Business. For detailed explanation, see footnotes for page 76 of the 1942 Supplement.

\* Less than \$500,000.

Source: Daily Statement of the U. S. Treasury.

Chart 22.—Budget Expenditures of the Federal Government

BILLIONS OF DOLLARS



Source: U. S. Treasury Department.

in 1941. The extra money needed to finance this excess was obtained by borrowing, with the result that the direct Federal debt, which had increased during 1942 from 58 billion dollars to 108 billion reached 165 billion at the end of 1943.

Continuing its policy of raising as much of the required funds as possible in short concentrated drives, the Treasury conducted two war bond campaigns in April and September, which brought in 37.5 billion dollars of the 58 billion raised in the whole year. The latter of these drives differed in one important respect from previous ones in that commercial banks were excluded from participation. Yet, in spite of this, the Treasury sold 18.9 billion dollars of securities in the September campaign, as compared with 18.6 billion sales in the April drive during which commercial banks had taken 5.1 billion of the new offerings.

Because of this increased emphasis on noninflationary sources of fund, the share of the Government debt held by individuals, institutional owners, and business rose markedly from 33 percent at the end of 1942 to 36 percent shortly after the completion of the second war-loan drive. While other classes of owners also increased their holdings of public issues, their shares in the total were somewhat smaller in the latter part of the year as compared with the end of 1942.

The drift to greater relative holdings by individuals, corporations and partnerships was highlighted by the large purchases of savings bonds made in the last 12 months. The amount of these issues outstanding rose in this period from 15 billion dollars to 27 billion.

This represented a considerable increase in sales, over one billion dollars worth of savings bonds a month in 1943 as compared with the 750 million dollars average monthly sales in the preceding year. The new sales of Series "E" bonds

which are held entirely by individuals, accounted for almost 75 percent of the 12.3 billion of savings bonds sold in 1943.

A large proportion of all savings bonds bought in 1943 was purchased by individuals through pay-roll deduction plans. In the latter part of the year approximately 26½ million workers were having \$35 million dollars or 9 percent of their pay deducted each month for the purchase of savings bonds. This is a notable improvement over the previous year when 23 million participants turned over 325 million dollars or 8 percent of their pay each month for such purposes.

There was, however, a disturbing increased rate of redemptions of these bonds as the year progressed. In the latter part of 1942, an average of 43 million dollars out of monthly receipts amounting to 860 million dollars was returned to the public for savings bonds redeemed. During this period the total outstanding value of savings bonds averaged about 14 billion dollars.

Late in 1943, funds were received from the sale of defense bonds at a monthly rate of 1,300 million dollars, while redemptions averaged 170 million dollars a month. During this latter period, the average level of savings bonds outstanding was 26 billion. In other words, whereas in the closing months of 1942 redemptions amounted to approximately \$3.00 for every thousand dollars of savings bonds in the hands of the public, toward the end of 1943 this rate rose to about \$6.50 per thousand.

Whatever the cause of this phenomenon—increased cost of living, higher taxes, greater reluctance to save in this manner, an increased desire to spend on consumption or a change in attitude as the war situation improved—the main fact is clear; the trend in redemptions was impairing the Government's effort to avoid inflationary methods of raising the money needed.

While in 1943 considerable success was

Table 24.—Public Debt of the United States, Direct and Guaranteed

(Millions of dollars)			
	December 31—		
	1941	1942	1943
Direct public debt, total <sup>1</sup> .....	57,838	108,170	165,577
Interest-bearing debt, total.....	57,451	107,303	163,603
Public issues:			
Bonds, total.....	40,000	54,858	96,128
U. S. Savings bonds <sup>2</sup> .....	5,140	15,090	27,383
All other.....	34,860	39,768	68,745
Notes, total.....	8,468	16,217	19,761
Regular and national defense series.....	5,997	9,863	11,175
Tax and savings series.....	2,471	6,354	8,586
Certificates of indebtedness.....		10,934	23,633
Bills.....	2,902	8,827	13,072
Special issues.....	5,952	9,033	12,703
Noninterest-bearing debt.....	457	863	1,376
Guaranteed obligations not owned by the Treasury.....	6,327	4,301	4,230
Total direct and guaranteed debt.....	64,265	112,471	170,108

<sup>1</sup> Includes 1,278 million dollars as of Dec. 31, 1941, 6,201 million as of Dec. 31, 1942, and 7,550 million as of Dec. 31, 1943, advanced to Government agencies for which their obligations are owed by the Treasury.

<sup>2</sup> At current redemption values except Series C which is stated at par.

<sup>3</sup> Of this total, 8,302 million dollars represents savings notes.

Source: Daily Statement of the U. S. Treasury.

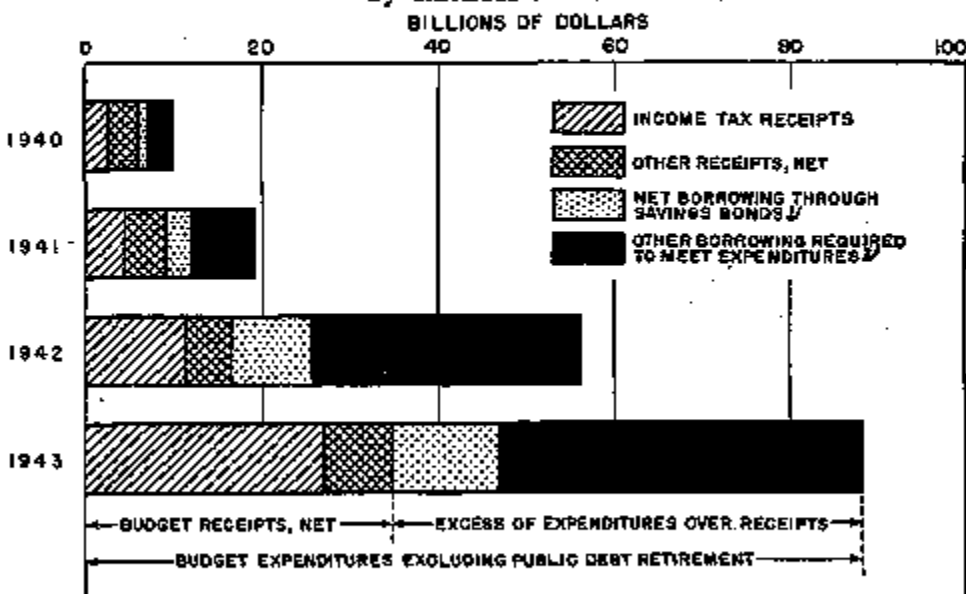
achieved by the Government in borrowing from noninflationary sources, commercial banks did increase their holding of the public debt from 41.3 billion dollars as of December 31, 1942, to an estimated 63.2 billion on October 18, 1943. It is true that some part of these additions represented merely a shift in the asset holdings of the commercial banks, and hence did not add to the inflationary potential.

It appears nevertheless that most of the purchases of Government securities by the commercial banking system made available more spending power in the community. It is worth pointing out in this connection, however, that the commercial bank purchases of Federal debt in 1943 were not much greater than in 1942, although the Government's need of borrowed funds, as measured by the budgetary deficit, was markedly more acute in the latter year.

One of the concomitants of the war financing in this last year was the continued rapid growth of liquid assets held by the people of the United States. Deposits and currency which in 1942 had grown by 31 billion dollars continued to expand to an even greater extent in 1943. Indeed, by the end of the year they had reached a level of almost 125 billion, 25 percent greater than the size of consumer holdings at the end of 1942. In view of the great increase in Government bond purchases which were also made in this last year, it is clear that the public at large has accumulated liquid assets to an extent never before approached in the history of the country.

From the point of view of the present inflationary potentialities, the increase in demand deposits and currency in circulation is of particular moment. The total of these at the end of 1943 amounted to slightly over 82 billion dollars, an increase of almost 30 percent over the amount outstanding at the be-

Chart 23.—Budget Receipts and Expenditures of the Federal Government by Calendar Years



<sup>1</sup> Data include Series A through G.

<sup>2</sup> Residual figure and not the precise amount of other borrowing which took place during the year.

Source: U. S. Treasury Department.

ginning of the year. This percent increase was about the same as that which took place in the previous 12 months. The significance of these increases depends on the relative share held by individuals and by business.

Insofar as business is concerned, the nonavailability of spending outlets coupled with direct restrictions placed on purchases by the control authorities have fairly well sterilized its excess liquid funds. In the case of individuals, the situation is somewhat different. Control of the extent and direction of their spending is only partial with much greater reliance placed on voluntary restraints. Any general move to spend, which could be induced by a variety of events, would inevitably result in a serious breach of the anti-inflationary line.

This, then, was the picture in finance. While the Government encountered no major difficulties in raising money needed for the largest military program in history, it left the people with a tremendous fund of liquid assets. Part of this fund is sufficiently volatile to be a distinct inflationary threat at the mo-

Table 25.—Ownership of U. S. Government Interest Bearing Securities, Direct and Fully Guaranteed

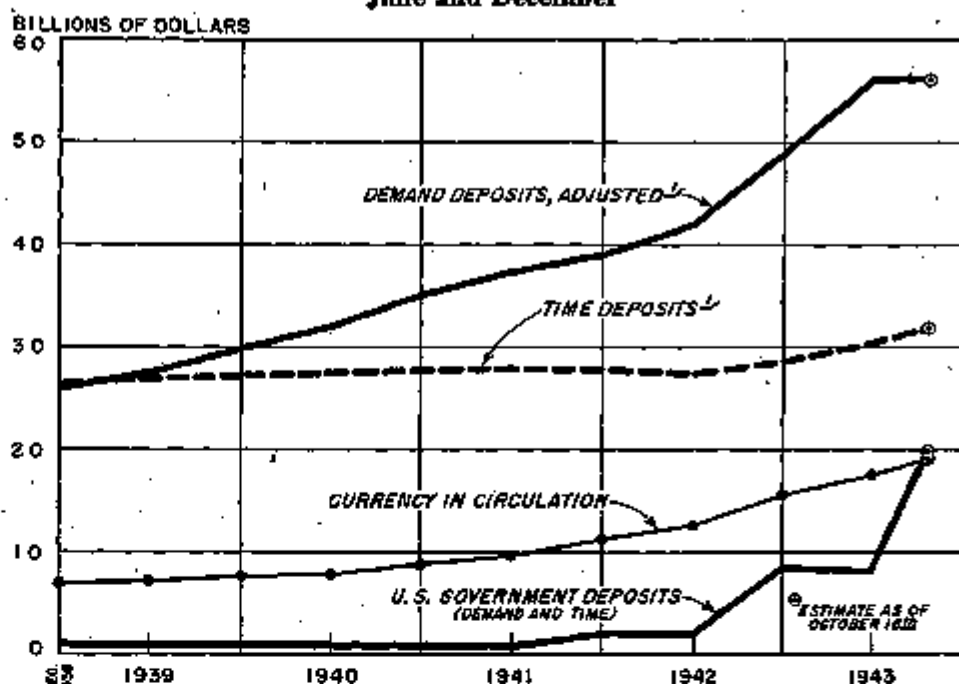
(Billions of dollars)

	December 31—		Oct. 15, 1943 <sup>1</sup>
	1941	1942	
U. S. Government agencies and trust funds.....	9.5	12.2	15.8
Federal Reserve banks.....	2.3	5.2	2.8
Commercial banks.....	21.8	47.3	63.3
Mutual savings banks.....	2.7	4.6	6.0
Insurance companies.....	8.9	11.0	14.4
Other private owners.....	18.5	38.3	52.5
Total interest bearing securities.....	63.8	111.6	157.6

<sup>1</sup> Preliminary estimates by the compiling agency, except for holdings of mutual savings banks, insurance companies and other private owners, which are estimated by the Department of Commerce.

Source: Board of Governors of the Federal Reserve System.

Chart 24.—Deposits in All Banks and Currency in Circulation at End of June and December



<sup>1</sup> Data are partly estimated; exclude interbank and U. S. Government deposits. Demand deposits, adjusted, also exclude cash items in process of collection (float). Time deposits include deposits in Postal Savings System and in Mutual Savings Banks.

Sources: Bank deposits, Board of Governors of the Federal Reserve System; currency in circulation, U. S. Treasury Department.

ment. It may constitute a problem of major magnitude in the immediate post-war period.

Bank deposits have risen to such an extent that in the face of steady reserve balances, excess reserves have rapidly declined in many instances even to the disappearing point. The excess reserves of members of the Federal Reserve System dropped from about 2.6 billion dollars on November 1, 1942 to 1.1 billion twelve months later.

That they were maintained at even this level, the lowest in the last 6 years, was attributable to Federal Reserve Board action increasing Federal Reserve

holdings of Government securities from 4.7 billion dollars at the beginning of November 1942 to 8.4 billion by last November. The credit thus extended not only helped member banks to offset the steady loss of reserves involved in the great increase of money in circulation but also enabled them to lend to the Government some of the funds which were not obtained from current savings.

From the low level of excess reserves, it is evident that if the Treasury is compelled to sell any considerable amount of new securities to the commercial banks, the Federal Reserve must continue to expand its credit to member banks.